

Papers

Twelve ailments of outsourcing CRE: What they are and how to prevent them

Kate Vitasek* and **Michele Flynn****

Received (in revised form): 10th June, 2019

*E-mail: kvitasek@utk.edu

**E-mail: flynn@sireas.com

Kate Vitasek is a faculty member for graduate and executive education at the University of Tennessee's Haslam College of Business Administration. Her award-winning research has been featured in six books including: *Vested Outsourcing: Five Rules That Will Transform Outsourcing* and *Vested: How P&G, McDonald's and Microsoft are Redefining Winning in Business Relationships*. Her most recent book — *Strategic Sourcing in the New Economy: Harnessing the Potential of Sourcing Business Models for Modern Procurement* — has been widely endorsed by some of the most progressive procurement leaders across the world.

Michele Flynn is a visionary and expert in the fields of outsourcing, facilities management, real estate and governance. She serves as executive chairman for SIREAS, LLC (a Vested Center of Excellence), working directly with clients to provide vision, strategy and guidance in their pursuit of excellence in corporate real estate. As the founder and CEO of *Expense Management Solutions*, her leadership and expertise were integral to the development of performance-based contracting for global outsourcing relationships in corporate real estate and administrative services. She has authored many articles on facilities, real estate and governance best practices and is a sought-after speaker.

ABSTRACT

Today's corporate real estate (CRE) professionals deal with more global, complex, outsourced supplier relationships than ever before. The result? Organisations are finding themselves with a new set of challenges — many created by gaps between the intent of the relationship and the actual contract. These gaps are what University of Tennessee (UT) researchers call 'outsourcing ailments'. A key to eliminating the ailments is first to identify they exist and understand how they can make your strategic supplier relationships unhealthy. This paper summarises each of the 12 most common ailments and provides guidance on how to overcome each ailment in your strategic supplier relationships.

Keywords: *sourcing, outsourcing, Vested outsourcing, real estate, facilities management, strategic suppliers, governance, perverse incentives*

INTRODUCTION

University of Tennessee (UT) researchers began uncovering outsourcing ailments as part of a research contract funded by the US Air Force to study performance-based and public-private partnership contracts. The intent of those contracts was to outsource key functions to strategic suppliers.

Specifically, why were some contracts so successful, while others fell far short of the promise of their ‘strategic’ nature? The findings were clear: often there is a disconnect between the intent of a ‘strategic’ deal and how it is procured, contracted and ultimately managed. When this happens, friction can disrupt, derail or even destroy the best-intentioned strategic supplier relationship. These ailments are described in *Vested Outsourcing: Five Rules That Will Transform Outsourcing*, now in its second edition.¹

A key to eliminating the ailments is first to identify they exist and understand how they can make strategic supplier relationships unhealthy. With this in mind, the rest of this paper summarises each of the 12 most common ailments, and provides a proposed resolution and some guidance to help you overcome each ailment in your strategic supplier relationships.

AILMENT 1: PENNY WISE AND POUND FOOLISH

Your grandmother likely warned you about being penny wise and pound foolish. Well, it happens in large organisations too. Specifically, this ailment crops up when an organisation selects a strategic supplier and structures the relationship solely based on cost. Many real estate and procurement professionals (and even some organisation policies) operate in the Dark Ages. You do not have to look far to find organisations professing to want or need a strategic supplier to create value or drive innovation, but, behind the scenes, their primary focus is to get the lowest possible price. This state of mind is deeply rooted in the way internal teams are measured. Procurement departments are often measured (and potentially compensated) based on ‘savings’. CRE teams are more likely to be measured on results such as up-time and customer satisfaction, but achieving budgets and savings targets are also a core part of their measurement scale.

Because the CRE and procurement teams often work hand-in-hand in the sourcing process, their focus frequently narrows to the common denominator of ‘savings’. The narrower the focus, the more likely they will concentrate on price and not on achieving ‘value beyond savings’. In short, they get what they pay for. This myopic focus might achieve the short-term goal of up-front cost reductions, but time and experience consistently prove it also results in unintended, disadvantageous consequences, such as:

- The highly qualified, strategic suppliers may refuse to bid knowing that the price it will take to win the work will not be sufficient to enable them to deliver effectively;
- Even those that choose to play the game will, over time, look for ways to recover needed margins. One method is to reallocate the customer relationship management teams to accounts that offer better chances for sustainable revenue and long-term rewards — ultimately, their ‘C’ team may replace the ‘A’ team on your account. Another option is to generate frequent change orders for ‘scope creep’ every time anything changes on the account. Given that constant change occurs within complex CRE outsourcing relationships, this opens a client to probable price increases at much higher margins for added scope;
- Innovation requires investment. Investment requires return. Price-focused deals, by definition, limit returns or margins. Suppliers will choose to invest (and therefore innovate) on accounts where they can achieve reasonable returns. Just as buying organisations segment their ‘preferred suppliers’, suppliers segment their accounts. It is difficult to become a ‘customer of choice’ when the sole focus is reducing cost;
- Organisations that choose to mandate periodic price realignment based on

benchmarking exercises force suppliers to recover all their costs and profits within the benchmarking period (quarterly, annually, etc.). This precludes the ability to amortise costs over time and therefore minimises any willingness to invest. It also drives a supplier towards a ‘protectionist’ mindset, limiting their willingness to be transparent;

- The worst potential consequence is that the supplier cuts corners on quality because their profits are under pressure. This result is a lose-lose situation for both the buyer and supplier, as the supplier does not make enough money and the buyer does not achieve the required outcome.

Resolve to move to a more sustainable approach to drive business value with these three quick tips:

- (1) Focus on the total cost of ownership (TCO) — not just price;
- (2) Create a holistic compensation model that incorporates all the true cost drivers;
- (3) Balance the risks inherent in the relationship to determine how to achieve ‘best value’ in the relationship for the delivery of the strategic services.

AILMENT 2: THE OUTSOURCING PARADOX

The ‘outsourcing paradox’ is when an organisation hires a supplier as the ‘expert’ and then dictates exactly how to do the work. The organisation develops a ‘perfect’ set of tasks, frequencies and measures — a perfect system — but paradoxically gets no input from the supplier it has hired as the expert. Thus, the perfect statement of work then contractually obligates the supplier to perform as told, effectively locking the buying organisation into status quo. In such a context, the deal acts like a cage that restrains the supplier’s creativity to the boundaries of an overly prescriptive statement of work.

The outsourcing paradox often occurs with first-generation outsourcing initiatives. Frequently this is because the buyer fears the loss of control of the function and their faith in the supplier’s true capabilities is low. The outsourcing paradox is especially rampant for outsourced services such as facilities management or multi-functional corporate real estate deals because of the complexity of the functions as well as their criticality.

Resolve to take full advantage of your supplier’s expertise with these three tips:

- (1) Resist the urge to handcuff the supplier with a detailed and prescriptive statement of work;
- (2) Focus on the desired outcomes of what you need the relationship to achieve. Perhaps shift to what UT researchers call a ‘Statement of Objectives’ that provides the supplier with your objectives for the work, but still allows flexibility to make changes that will drive efficiencies and improvements in how the work is done;
- (3) For complex supplier relationships, identify the ‘what’ via a clear and proactive workload allocation that delineates who (buyer/supplier) is responsible for which activities.

AILMENT 3: ACTIVITY TRAP

As noted above, you get what you pay for. When buyers structure contracts to pay for specific activities such as a per call, per work order, per hour, they risk falling into the activity trap. Activity-based pricing promotes an inherent perverse incentive whereby the supplier is paid for every activity, whether it is needed or not. The supplier has no incentive to reduce the number of activities because if they do so, they lower their own revenue. Within CRE, the classic case is pay by the hour for a service call. When structured this way, in a vacuum, meaning there are not corresponding efficiency targets or overall

budget expectations, the supplier makes more money the longer it takes to complete the call. Another example is the remote maintenance or ‘man in the van’ type of services, where a component of the pricing is payment per mile. Why bother to optimise travel distance or time if you are paid by the mile? More miles generate more revenue. Unfortunately, in these scenarios, the more inefficient the process, the more money the supplier can make. It is perverse: the supplier’s incentive is to *not* share opportunities to drive efficiencies for the client.

Resolve to align the pricing mechanisms with your desired outcomes with these tips:

- (1) Consider pricing mechanisms or models that look at the function holistically in order to manage your TCO effectively;
- (2) Align supplier incentives with your desired outcomes: if you want to drive efficiency, make sure that they earn more when they increase efficiency, not less; if you want to drive down costs, make sure that their profit margin is protected while your overall costs are reduced;
- (3) Recognise that you may need multiple pricing strategies within a complex outsourcing arrangement as different functions require different behaviours;
- (4) Consider shifting the more strategic contracts to performance-based or Vested relationships, especially if you want to motivate a supplier to drive innovation and transformation.

AILMENT 4: THE JUNKYARD DOG FACTOR

Like the outsourcing paradox (Ailment 2), the junkyard dog factor occurs most frequently in first-generation outsourcing deals. Frequently the decision to outsource stems from a desire to focus on a company’s core business expertise and is often made at a fairly senior level in an organisation.

While procurement teams can facilitate the actual sourcing process, the expertise of the ‘operational’ individuals from the CRE team, facilities management, project management, etc. are asked to play key roles in the sourcing process, such as writing the statement of work and ensuring the selected provider is technically capable of delivering the service. As a result, the ones involved in the decision are often those whose positions (or their teams’ positions) will most likely be transitioned to the supplier. An innate desire to protect one’s own best interest frequently leads to employees who do one of two things:

- Hunker down and draw a line in the sand, claiming that certain processes simply ‘must’ stay in-house; and/or
- Post transition, as a member of the stay-back or governance organisation, believe it is their ‘job’ to make the supplier look bad so they can prove that the old way was ‘better’.

This behaviour has two potential outcomes. In the first instance, the supplier’s scope may be incomplete, complicating its ability to be successful upon award and creating a complex web of critical integrations that decrease efficiency. In addition, the buyer ‘experts’ who remain behind may create a ‘shadow’ organisation within the client. Accountabilities become muddy and the outsourcing effort fails or struggles to live up to the initial promise. In the second instance, the supplier is forced to invest in defensive relationship management strategies to document their success, is reluctant to be transparent and share challenges or work collaboratively to address issues and spends too much time on non-value-added activities. In both cases, the buyer is likely to have sub-optimal results. If nothing else, the level of pain within the relationship will be high and neither the buyer nor the supplier will view the relationship favourably.

Resolve to preclude or mitigate junkyard dog behaviour by following these suggestions:

- (1) Establish a clear vision with the internal team prior to commencing the initiative to ensure that all parties understand the drivers behind the initiative and what you as a buying organisation are striving to achieve;
- (2) Collaboratively work with your supplier to define a clear workload allocation or taxonomy of who (buyer/supplier) does what. This will enable you to identify potential misalignment and duplication of effort, and then eliminate them before they become institutionalised;
- (3) Ensure that your stay-back or governance team (especially if they used to be 'doers') clearly understands the difference between their 'old' role and their 'new' role. Provide training to ensure the internal team knows how to 'govern the relationship' vs 'manage the function';
- (4) Modify internal performance management (and compensation) objectives to align with the supplier's success. If 'they' win, 'we' win. If they lose, we lose. Only by recognising that the organisation needs the supplier to succeed can the buyer achieve its desired outcome. Then you can be confident that the teams will be rowing in the same direction.

AILMENT 5: THE HONEYMOON EFFECT

In many ways, a strategic outsourcing relationship is much like a marriage — just on a commercial level. As a buyer/supplier, you date through the sourcing process and marry when you execute the contract. Like marriages, new supplier relationships typically experience a honeymoon stage. Both parties are super-excited to be working together and often collaborate effectively to ensure that the initiative has a strong foundation. Suppliers often jump through hoops as they

ramp up, commit significant resources at a regional, national and platform level and implement the newest and best solutions to meet the account's needs. The client recognises there is a learning curve and that much of what the supplier is dealing with results from the client's (or prior supplier's) historical performance. In fact, the Stamford, Connecticut-based research firm Gartner, Inc. studied the honeymoon effect and found that overall attitudes are positive at the outset of a new relationship, but *satisfaction levels drop over time*.² To be fair, the new and exciting becomes stale, the excitement of new solutions wanes as they become old news. The supplier shifts focus from implementation to operations and deals with the day-to-day realities of managing the facility, executing projects or transactions and satisfying users and client senior management, all while staying within the financial guardrails and accommodating ever-changing business needs. Hopefully buyer stakeholders shift their focus to the strategic management of the relationship, managing demand and serving as good stewards. Their ability to do so is significantly affected by the actual contract structure of the deal that is executed. But, regardless of how the contract is structured, both the buyer and the supplier will likely have to address unintended consequences. Perhaps the metrics and the measures proposed are not achieving their desired goals. Perhaps the client's business has changed (highly likely). Perhaps the solution originally proposed does not work exactly as intended. Whatever the cause, the reality is the 'honeymoon' is over. Now it is time to do the real work of making sure the relationship actually works.

Resolve to recognise that despite all intentions to the contrary, there will be a honeymoon effect; focus instead on ways to mitigate its impact:

- (1) Ensure that the people involved in executing the relationship are involved

from the beginning in developing the solution, stay involved through implementation and the actual operations. Continuity of resources is key and may require a formal commitment to retain key resources for a specific period within the contract. Task them with 'keeping the vibe alive' and educating incoming team members of the 'intent of the deal';

- (2) Have a well-thought-out governance structure as part of the contract and ensure both sides commit to the level of resources necessary to focus on the health of the relationship, not just the day-to-day performance or results;
- (3) Consider shifting to a performance-based or Vested relationship where objectives are aligned, from setting reasonable expectations, to acknowledging change is inevitable by ensuring the pricing model effectively accommodates change and that modifying metrics are needed to drive desired behaviours.

AILMENT 6: SANDBAGGING

As outsourcing has matured, more organisations are moving into second or even third-generation phases. Clients are often frustrated by what they perceive to be declining opportunities to save money. Consider that if an operation has been outsourced for five to ten years, one would hope that the experts delivering the service are running it at top efficiency. The 'low hanging fruit' that was so easy to identify and capture in the early years is getting harder and harder to find. One strategy that some organisations have implemented is to mandate a year-over-year 'glidepath' of savings. They contract specifically with the supplier and force cost reductions of x per cent annually, resulting in an ever-declining revenue model for the supplier. The stated logic is that it is up to the supplier to drive efficiencies to maintain

their margin. Unfortunately, this somewhat unrealistically assumes that the supplier is in complete control of the efficiency of service delivery. In reality, in complex outsourcing relationships the client has significant impact, multiple points of integration and often is a source of much of the inefficiency. To protect themselves from missing glidepath mandates, suppliers may choose to 'sandbag'. They may know of opportunities to create additional efficiencies early in a relationship but save the knowledge for later years to ensure they get paid in full or achieve the incentive payment. While some may call it managing the operation in their own best interest, it actually diminishes the value they could be bringing to the client. Effectively it is a 'perverse' incentive, because it delays the client's ability to achieve efficiencies or savings as soon as possible — hence the term sandbagging.

Resolve to structure the relationship so it prevents the urge to sandbag. Suggestions to do this include:

- (1) Align your intentions, your metrics and your incentives. Think through holistically the implications of your proposed incentive. Does it accomplish the desired outcome effectively? Are there any potentially perverse behaviours that could be triggered because of this metric/incentive?;
- (2) Design your contract flexibly. Recognise that change is constant, and that results reasonably vary from year to year, often based on measures beyond the supplier's complete control. A flexible design will allow you to adjust your performance framework to match expectations as they change;
- (3) Consider shifting to a model designed with full transparency. This will preclude opportunities to hide things and minimise 'gotcha' moments;
- (4) If the situation warrants, consider using the Vested methodology/model to

enhance the opportunity to achieve a win-win for all parties. Vested promotes full transparency, a flexible framework and outcome-based relationships.

AILMENT 7: THE ZERO-SUM GAME

A ‘zero-sum’ philosophy believes that the pie or the opportunity is fixed. This means there is only so much value in a given situation or a relationship and that if one party gets more, the other party gets less. In other words, if you win, I lose; if I win, you lose. Or, as once mentioned by a procurement executive, ‘win-win is when I get to win twice’.

In reality, if something is good for the supplier, it does not automatically mean it is bad for the buyer or vice versa. Win-win economics has been studied since the pioneering research of John Nash laid the foundation by winning a Nobel Prize in economics for his Nash equilibrium.³ Other academics have built on the concept of win-win, further proving that when individuals or organisations play a game *together* and work together to solve a problem, the results are always better than if they work separately or play against each other.

Buyers and suppliers need to understand that the sum of the parts *can* be better when combined effectively. Through the power of trust and collaboration, when individuals or organisations work together to solve a problem, the results are *always* better than if they had worked separately or worked at cross-purposes.

Resolve not to get caught up in the zero-sum game by following these suggestions:

- (1) Recognise that the pie is not fixed or finite. There are many ways to expand the pie in an outsourcing relationship. Perhaps it is an expansion of geographic scope to include additional regions. Alternatively, it could be an expansion of functional responsibility to include

projects or transactions in addition to facilities management. Or it could even involve some type of commercial partnership in which both parties benefit, either through revenue sharing or even intellectual property development;

- (2) Believe in the power of trust and collaboration. Agree to play nice — together — by adopting a ‘what’s in it for we’ philosophy. Recognise that often something you need or want is an easy give for the other party but is really critical to you — and the alternative may be true as well. For example, many clients choose to limit the supplier’s right to use the client’s name in their marketing material. For a supplier, this is critical. For a client, as long as they stay within the corporate or agreed-upon parameters, it is an easy and relatively painless give;
- (3) Institutionalise the concept of trust and collaboration into the relationship by implementing a robust platform for collaboration whereby individuals from both organisations are jointly accountable for the delivery of successful outcomes. Needless to say, joint rewards and incentives can act as significant enablers for collaboration.

AILMENT 8: DRIVING BLIND DISEASE

It is often said that if you do not know where you are going, you will never know how to get there. A corollary principle to that is: if you do not know how to measure there, how will you know if you got there? Or in other words, you are effectively driving blind. When we started working with companies over 20 years ago, many outsourcing relationships suffered from this disease. They would rush to strike a deal, but not outline how they would measure its success. Typically, companies would focus on tracking costs but not measure essential aspects of performance. As a result, relationships often failed because of an unclear

definition of success, lack of proper alignment, lack of a formal governance process to monitor overall relationship performance, or all the above.

Today, the good news is that most organisations address this ailment head-on with supplier scorecards or dashboards. The current challenge is that many relationships find they suffer from a ‘watermelon’ scorecard. While the supplier may achieve a ‘green’ scorecard on the surface (meaning they are performing to the key performance indicators [KPIs]), the business leaders perceive the relationship as ‘red’ for any number of reasons stemming from the reality that the KPIs in use are not measuring what is truly important to the clients.

Resolve to avoid driving blind in your relationship. Some suggestions to help you see clearly where you are going include:

- (1) Agree on the desired outcomes for the relationship based on business needs instead of focusing on transactions, headcounts and task-based statements of work. In short, measure the business — not just the activities the supplier is doing;
- (2) Thoughtfully design the metrics that will accurately measure the success of your collective ability to achieve those desired outcomes. Agree on the sources of data, the definitions of each aspect of the measurement, who will collect and report it and how often it will be measured;
- (3) Build an ongoing review of those metrics into the governance process to ensure that you are measuring the right things as business needs change. This will go a long way toward ensuring you do not become victims of a watermelon scorecard;
- (4) Consider using some 360° metrics. Rarely can a supplier have an impact on the overall business outcomes without

the required support from their client. Ideally, scorecards should demonstrate how effectively the buying organisation *and* their supplier work together to achieve success against their mutually agreed business outcomes.

AILMENT 9: MEASUREMENT MINUTIAE

The hallmark of the measurement minutiae ailment is trying to measure *everything*. As the saying goes, too much of a good thing can be bad for you; this applies to bingeing on Halloween sweets as well as to the exhaustive measurement of your supplier’s performance. It is not uncommon to find spreadsheets with 50 to 100 metrics on them. One scorecard for a facilities management (FM) outsourcing deal weighed in with a whopping 550 metrics! In this case, a thick binder kept track of everything monthly. In one company, the supplier relationship manager was embarrassed to reveal the total number of person-hours required to create these spreadsheets. This is not necessarily a wasted effort if the company is getting positive results based on improvements it is making. Unfortunately, experience has shown that few companies have the diligence to manage the metrics they have created. As an ailment derived from the outsourcing paradox, measurement minutiae reflects the need to maintain absolute control through the illusion of measurement.

Our research (and that of others) has shown that measurement minutiae results from a lack of discernment regarding the importance of success measures. When critical success factors for any business are fully understood, the ideal number of metrics rarely exceeds five to ten KPIs. Paring down the number of metrics allows you and the supplier to focus on what matters — not simply what can be measured.

Resolve to measure what actually matters. While human nature frequently leads us to

measure what is easy to quantify, the following suggestions may help you maintain an appropriate focus:

- (1) Recognise that a good performance framework should be designed as a multi-layered hierarchy that converges towards the achievement of business success — not a flat library of exhaustive metrics. Your supplier will likely measure many things through operating metrics that include leading indicators, lagging indicators, volumes and many other data points. While valuable and perhaps interesting, these should not be viewed as true performance metrics;
- (2) KPIs are those metrics that effectively measure whether the relationship has achieved or made progress toward its desired outcomes. These are often the metrics included in a scorecard and used to assess fees or incentives due. They differ substantially from an operating metric. As an example, many companies in the FM space measure what percentage of critical preventative maintenance work orders are complete when scheduled. In fact, the desired outcome is that the workspace is available for occupancy and use. It is a multi-faceted desired outcome; many things contribute toward it. A supplier could easily complete all critical preventative maintenance workorders (PMs) and yet the desired outcome of space available for use is not met. By utilising an operating metric (PMs complete) you are not accurately measuring what matters (up-time);
- (3) Acknowledge and remember ‘intent’. Good intentions can create metrics that do not work as designed. Be flexible and modify your metrics when you need to do so. In one case, a supplier and client agreed it was important to focus on identifying and resolving concerns proactively before their collective end-user occupants felt the need to file a work

order. They mutually agreed to use a target of 70 per cent proactive to 30 per cent reactive work orders to judge the success of this goal. Due to unforeseen circumstances, including limitations in the client’s system that tracked work orders and significant changes in personnel, the metric became a huge point of contention. Once these challenges were flagged to leadership, the team addressed the original intent of the metric, agreed that it was failing to meet the goal for which it was designed, and pulled it from the scorecard until they could collectively resolve its failings.

AILMENT 10: THE POWER OF NOT DOING

The saddest of all the ailments is what UT researchers call the power of not doing. Many companies fall into the trap of investing heavily in creating and automating world-class scorecards to capture and graph performance results, but then fail to follow through and actively use them to manage the business. We have all heard the adage, ‘You can’t manage what you don’t measure’, but the reality is it does not matter what you measure if you do not manage it. We have seen numerous scenarios where suppliers and clients are quick to tout their dashboards, but when asked how the information contained within those dashboards is utilised, they have no idea. Some report they host quarterly business reviews (QBRs), but then spend most of their time presenting the information in the dashboard instead of talking about what actions or strategies they need to implement in response to those metrics. In one case, a client and supplier ‘mapped’ their existing 100+ metrics against the business outcomes. Their finding? Over 80 metrics were not being used and did not contribute to a business outcome. This may be an extreme example, but we suggest that it is not that uncommon.

Resolve to use the measurements on which you agree to actively manage the business. Some things to consider:

- (1) Structure the governance process to produce the scorecards and dashboards in advance of the actual QBR meeting. Require all participants to be fully up to speed on the results before the session. Utilise the QBR to address the ‘why’ of the results and focus the discussions on the ‘so what’. What do these results mean, what should we change, how are we going to move forward?
- (2) After each measurement period, carry out a post-mortem review of the measures used — it need not be lengthy. Ask the questions, are these still the right measures, are they driving the outcomes we desire, are we seeing any perverse behaviour or results because of these measures, should we change them? If the answer is ‘maybe’, flag the measure for potential review. If, after several review periods, the measure continues to have questionable value, consider replacing it.

AILMENT 11: NEW SHERIFF IN TOWN SYNDROME

You probably know the scenario. The new sheriff rides into town, wants to clean up and make a name for himself, most often by leaving dead bodies in his wake. In the movies, the new sheriff is usually the good guy and the bad guys become the dead bodies and it is a happy ending. The good guys win, the bad guys lose. Unfortunately, in the business world, this is not always the case. The new sheriff in town could be a gunslinging, power-hungry executive looking to enhance his/her name and image, along the way throwing good-standing partners/suppliers under the bus in the name of ‘lower costs’ or ‘a new strategic direction’. Even if it is not an issue of power hunger, new executives are expected to make a major impact;

if they come from the supply side, they may bring knowledge about things such as market margins and believe their job is to drive costs as low as possible. Or the new sheriff could just be new to the concept of collaborative partnerships and not understand the logic, intent or value inherent in the existing relationship. Regardless of the drivers behind the change, too frequently the good gets tossed out along with the bad. At minimum, suppliers may lose trust in their client’s good intentions and begin to fall back on other bad behaviours, such as sandbagging, to protect themselves from diminishing margins.

Resolve to be aware of the potential for a new sheriff to derail a successful relationship. There are several actions you can take to mitigate or eliminate the damage.

- (1) Take the time to educate the incoming executive about the relationship. Include the why, what and how your supplier works and what makes it effective. Demonstrate the value achieved so far and to what extent it has contributed to the delivery of business outcomes;
- (2) Build a strong ecosystem around your relationship so you have supporters in many areas of the organisation who see the value. This may include business partners, internal customers, finance or other internal organisations with whom the supplier interacts. In a typical real estate outsourcing, your supplier will interact potentially with everyone from the occupants of the facility to IT, finance, procurement and other support organisations such as food, security and mail. When the new sheriff pressures to make changes, it will be easier to have other leaders contribute to the defence of the value of the relationship.

AILMENT 12: STRATEGIC DRIFT

Even the most well-crafted contracts and business relationships can suffer from a common

but dangerous ailment: strategic drift. This drift occurs when buyers and suppliers get bogged down in the daily business activities and neglect to keep abreast of changes in the business and the markets and thus do not update their strategic priorities to meet the changing needs. In short, what once may have been a high-performing relationship has drifted to a place that is no longer desirable, or at least not living up to its potential. With the honeymoon over, the relationship can shift into a new era that some call ‘relationship neglect’. In this phase, priorities shift, earlier promises fade into limbo and prior commitments revert to wishful thoughts.

Strategic drift occurs in all generations of outsourcing — first, second, etc. — but, interestingly, it is most likely to occur in relationships that have operated very successfully over a period of time. Once again, it is human nature that a certain amount of complacency sets in. Buyers and suppliers become familiar with each other, perhaps so much so they decide to allow quarterly business reviews to slip — or drift — to bi-annual or even annual events. When this happens, a vicious cycle can begin. Suppliers can lose sight of priorities and become less proactive in driving solutions to problems or connecting the dots to arrive at new solutions for new priorities. Limited or less frequent strategic conversations can cause buyers to perceive the supplier is not proactive enough and begin to consider market alternatives when, in reality, there is a good supplier already in place. The parties just have not made the effort or communicated sufficiently to be strategically aligned.

Resolve to avoid the pitfalls of strategic drift. UT’s Vested methodology encourages the use of a properly architected governance structure to help prevent strategic drift.⁴ It recommends six practices to align organisations and avoid strategic drift:

- (1) Implement an organisational framework with a tiered management structure to

ensure vertical alignment between the executives and the employees in the organisations tasked with getting the work done;

- (2) Separate service delivery, transformation and commercial management roles, to promote and drive transformational efforts. Recognise that the consolidation of these roles, or insufficient allocation of resources to each independently, will limit the chances of your success;
- (3) Establish peer-to-peer communications protocols by ‘mapping’ the individuals into the structure using a peer-to-peer alignment approach commonly known as ‘reverse bow tie’ or ‘two in the box’;
- (4) Develop a regular communications cadence or rhythm with formal and regular reporting and measurement processes, which includes metrics that align performance to strategy;
- (5) Develop a process to maintain continuity of people and resources;
- (6) Measure results in a formal performance management programme and use those measures to manage the relationship.

CONCLUSION

Do these ailments set off some loud and uncomfortable alarms? Even a single one might endanger the future of your relationship. Fortunately, diagnosing the illness is the first step to curing it.

Want to discover if you might be suffering from these ailments? UT offers a free ailments self-assessment that will provide you with a quick and easy litmus test to gauge how healthy your supplier relationship is.⁵

Given the complexity of the world in which most CRE organisations operate, outsourcing is and will continue to be a powerful method to deliver effective services. We hope the identification of these 12 ailments helps you crystallise some of the challenges you may face, and that the suggestions for avoiding them guide you to a smoother path to success.

REFERENCES AND NOTES

- (1) Vitasek, K. Ledyard, M. and Manrodt, K. (2013), *Vested Outsourcing: Five Rules That Will Transform Outsourcing*, 2nd edn, Palgrave Macmillan, New York, Ch. 3.
- (2) Evans-Correia, K. (March 2006), 'Gartner: Outsourcing Deals Based on Price Alone are Likely Doomed', CIO, available at <https://searchcio.techtarget.com/news/1173176/Gartner-Outsourcing-deals-based-on-price-alone-are-likely-doomed> (26th June, 2019).
- (3) The Nash equilibrium is a concept of game theory where the optimal outcome of a game is one where no player has an incentive to deviate from a chosen strategy after considering an opponent's choice. Overall, an individual can receive no incremental benefit from changing actions, assuming other players remain constant in their strategies. A game may have multiple Nash equilibria or none at all. Investopedia definition of 'game theory' available at <https://www.investopedia.com/terms/n/nash-equilibrium.asp> (accessed 26th June, 2019).
- (4) Vitasek, K., Crawford, J., Nyden, J. and Kawamoto, K. (2011), *The Vested Outsourcing Manual*, Palgrave Macmillan, New York.
- (5) Vested, 'Self-Assessments', The University of Tennessee, available at <http://www.vestedway.com/self-assessment/> (accessed 26th June, 2019).