RELATIONSHIP ALIGNMENT

reducing friction
realizing value

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FOREWORD

The conditions of business success in today's environment seem to be changing, and leaders can find themselves operating in seemingly contradictory worlds. On the one hand, there is the world of known methods of effective management, with predictable chances of success. On the other hand, there is the world of relentless churn, where dynamic instability offers moving targets and ambiguous pathways. Increasingly, as leaders, we are called upon to distinguish where value can be created through process efficiencies, and simultaneously to sense where value may be created through exploring opportunities for innovation.

This expansion of the leader's role is not a familiar mantle for many of us. We may recognize the potential present in this dynamic environment, but what led to our past successes at times seems unhelpful in this world. Add to the churn the many new organizational alliances we form to keep pace with change, and I'm sure you'll agree that the complexity of the organizations we lead is significant.

Today's leadership mandate is to continue focusing on efficiency, while concurrently exploring opportunities for business innovation. The IBM Strategic Outsourcing organization recognizes this duality, and that the agility needed for success requires a new approach that can balance each of these dynamics.

In September 2000, IBM established a practice in Strategic Outsourcing, focused on identifying the critical relationship connection points. This journal documents some key concepts of the **IBM Relationship Alignment Solutions** practice.

First, the journal explores, at a high level, environmental change as a backdrop to understanding the nature of “what’s different today.” In the growing context of the unpredictable, leaders today are asked to be both efficient and innovative.

The second section introduces the concept of the Relationship Portfolio. The portfolio provides a lens to assist in identifying where value is gained by efficiency and where innovation provides a basis for new value creation. Different aspects of an alliance relationship are mapped to the four segments of the portfolio. Understanding the relationship portfolio is critical to recognizing the balance of innovation and efficiency, and to building the appropriate relationship governance.

Finally, the third section focuses on relationship governance as the foundation for leaders to jointly form a meaningful context for their respective organizations. In working with clients, Relationship Alignment consultants have observed that the relationship governance needed for success does not emerge casually. Another realization is that organizations vary widely in their definition of relationship governance. Some believe it to be just another word for management, while others define it as organizational structure. This journal defines the relationship governance foundations that should be present in all outsourcing relationships to allow for the maximization of efficiency, while also encouraging innovation that differentiates.

Our journal does not profess to have all the answers, but we have attempted to make some observations, raise compelling questions, and suggest a way forward. Thank you for taking the time to read it, and for working with IBM.

Bobbie Landers

Director,
IBM Global Services

THE IT ENVIRONMENT HAS UNDERGONE A PROFOUND CHANGE

The christening of a new ship can be a glorious event. Brass bands play, onlookers wave banners, and a bottle of champagne is cracked on the hull. The initiation of an alliance such as an outsourcing relationship often receives a similar fanfare. There are congratulations, speeches, meetings, press releases, and optimism about the future from both organizations. Success, however, is determined after the limelight of the launch has subsided.

Realizing future value is not certain. Leaders in an outsourcing relationship have the responsibility to form a frame of reference for everyone involved. This includes defining the direction and pace at which the outsourcing relationship progresses, the ways in which work will be accomplished, and a means to assess the results. Depending on the frame that has been established and the ability of the participants to work within it, the relationship journey can take those onboard to successful destinations, or on a journey that includes disappointment and frustration along its path.

Establishing the relationship frame (or what can also be labeled relationship governance) at the inception of an outsourcing arrangement is crucial to channeling the joint team's energies toward the desired intent. Most people come to work with an enthusiasm to do what is right for their employer, and the absence of a clear trajectory does not stop them from energetically applying their intelligence to "filling in the blanks" on what they believe is desired. Productively channeling the workers' passions through clearly defining roles and the frame within which those roles operate is the leaders' responsibility in relationship governance.

Before the case for relationship governance is made, it is helpful to first step back and consider the environmental change that forms the backdrop for relationship governance.

Industrial Age Efficiency

The Industrial Age evolved from the Industrial Revolution, which began in the late 18th century. The business environment responded, and by the late 20th century had settled into the mostly predictable, steady rhythms needed to grow individual organizations. A familiar strategic planning model of action is still used to guide many organizations today:

- Organizational leaders **ready** resources by researching trends and threats, and they use that intelligence to advance strengths and bolster weaknesses.
- Each initiative takes **aim** at a selected target in the plan that sets objectives and balances coverage and resource use.

Similar to traveling on train rails, where the destination is known and the way is clear, the IT organization of the Industrial Era focused on forming efficient, repeatable process. Signals are clear, and choices are minimal.

- At the signal of **fire**, resources are deployed, and the plan is executed.

With each new fiscal period, this ready-aim-fire approach to planning and execution is repeated. Feedback about misfires, errors, and overachievements is returned to organizational leaders for plans to be appropriately corrected and revised. Senior executives set high-level objectives that are broken down into shorter-term goals for front-line managers. Efficiency is incrementally improved with experience as market intelligence accumulates and routines are refined.

As long as the target is relatively stable and the path for travel is clear, this straightforward approach enables suppliers and customers to commit to the expectations associated with explicit deliverables and coordinated plans.

Networked Era Possibilities

The evolution from Industrial Age to Information Age in the mid-20th century–and into its emerging subset, the current Networked Era–seems to have inspired the initiation of many relationships and alliances formed to weather the faster, less-predictable environment facing all organizations. Instead of offering a clear means and end, the turbulent environment of the Networked Era holds great potential for growth and innovation, but at the same time presents undefined means and a somewhat ambiguous end to fulfill that potential, where the path forward is not fixed, known, nor clearly seen.

A common image of this Networked Era turbulence is of complexity or chaos, and leaders seem to respond in one of two ways. Some see it as churn that must be stabilized so that the routine can again be the modus operandi: make the unfamiliar as familiar as possible in the minimum amount of time.

Alternatively, some embrace the growth in environmental complexity and accept the state of unpredictability along with the opportunities it presents. They see the ambiguity as a situational opportunity to take a fresh look and perhaps a different direction.

ambiguity: uncertainty or vagueness

Ambiguity related to outsourcing relationships primarily falls into one of two categories:

In **uncertainty**, choices present themselves but it is unclear which to choose. For example, parties to a outsourcing relationship may agree on the most important factors in a decision, but be unclear about the risk or potential benefit.

In **vagueness**, all choices are not obvious, although some sense of appropriate direction must be present. In such a fog, cautious exploration is advised.

Paul Saffo, director of The Institute for the Future, notes that "the paradigm 'ready-aim-fire' does not apply in the Networked Era. In today's quick-to-change environment, the methods that worked in the more predictable environment of the Industrial Age are no longer relevant.

"Today, if an organization waits for the ambiguity about a specific market opportunity to become clear, the opportunity is usually missed. Resources must be deployed and choices made before target clarity is possible. In such situations, where some level of ambiguity is present, a different execution model is required. A 'steering capability' should be developed in the organization."

In other words, rather than continue to focus only on ready-aim-fire planning and execution, the outsourcing alliance should also embrace an approach of “ready-launch-steer”:

- **Ready** is the phase where opportunity is recognized, and the decision is made to commit resources.
- The **launch** phase includes the deployment of resources to explore the situational opportunity.
- **Steering** is the organizational capability to recognize choices and to enable informed decisions as learning and exploration reduce the ambiguity of that opportunity.

In the presence of environmental complexity, all organizations must develop a steering capability, allowing informed choices to be made as solutions become more defined.

On the high seas or in a outsourcing relationship, leaders must stay aware of and adapt to environmental conditions. When unexpected conditions are encountered, they can be seen as disruptions to steer clear of or as an exciting challenge in which to explore potential opportunities. Embracing a spirit of shared discovery not only draws out the crew’s competencies, but also creates bonds that will endure into the future of the outsourcing relationship.

Industrial Age efficiency and Networked Era potential exist concurrently in today's IT environment

When computers were introduced into the Industrial Age environment, they were predominantly tools for efficiency. Initially, Data Processing and Information Systems usually reported to the finance organization, and computers were primarily used to speed up accurate finance processes. The role of the DP or IS function was clear: make known processes efficient.

Over time, the role of Information Technology has expanded from the Industrial Age efficiency mandate. The specifics of this expansion vary widely, but usually include the mandate to differentiate products, services, and processes across the enterprise, ultimately for the customers and constituents served. Outsourcing part or all of the IT function has become more common, as this expanded mandate requires skill and resources difficult for any one enterprise to anticipate and maintain.

In sustaining an outsourcing relationship, both the ready-aim-fire approach and ready-launch-steer capability should be kept in mind. Stability and turbulence usually exist concurrently in any complex environment, and the outsourcing environment is no exception. Facing growing environmental ambiguity, leaders

Traveling through unfamiliar waters requires a change in the traditional roles of both leaders and those they lead. Leaders must recognize the new challenges to making an alliance work.

must balance the need for effectiveness and efficiency with an appropriate level of innovation and exploration.

Exploration and innovation require different skills and responses from the organization than routine does. Efficiency is valued in the routine. While wastefulness is not acceptable when seeking innovation, the inherent element of exploration cannot be approached, executed, or evaluated by the same measures and methods as the routine activities. A tendency to "fix" the ambiguous too soon can leave a lot of value on the table in the form of unexplored possibilities. Conversely, not recognizing when the value is in the routine is improvident.

In the presence of ambiguity, a different approach is needed

In some important ways, the shift from the Industrial Age to the Networked Era worldviews can be compared to the difference in seeing the world through Isaac Newton's explanation of what is seen and Albert Einstein's revelations about the standards that underlie appearance.

Newton's science was based on seeing linear connections between isolated events. His analysis of increased efficiencies included finding the shortest distance between points, which is defined simply as "the shortest distance between two points is a straight line."

Newton's view is the rough equivalent of setting step-by-step operational objectives as seen in most Industrial Age organizations. One way to create value in such organizations is to find ways to gain efficiencies by straightening the lines.

The universe that Einstein saw was very different, although not in contradiction to the world of Newton. He saw a more natural reality of entities not moving in artificially straight lines, but following curving energy fields of attractions and repulsions.

Applying Newton's straight-line precepts to a universe in flux–typical of the Networked Era–can result in misdirection of resources and failure to see and tap into opportunities that initially may be hidden from view.

Citing Einstein's *path of least resistance* to replace Newton's desire to find the *shortest distance* between two points is not a call to shift from carefully detailed analysis to vague drifting toward an unspecified end. In fact, accessing the potentials of Einstein's vision requires an investment in learning about the forces that underlie and control relationships.

Einstein's concept of the importance of finding the path of least resistance is illustrative of the exploration and innovation that is often associated with effectively moving through the flows of outsourcing relationships. The best path can shift as the outsourcing relationship evolves and moves over time.

The path ahead is not always clear, given the complexity of today's environment.

The difficulty is one that faced physicists a century ago: if you were well-schooled in viewing the world through Newton's eyes, it was hard to see the curves Einstein described. This is the challenge: having the outsourcing organizations agree where the straight lines (efficiency and routine) provide the value in the relationship, and where the curves offer opportunity for value creation. They must align their actions to the agreed-upon approach.

THE RELATIONSHIP PORTFOLIO MODEL

As with a sea journey through charted and uncharted waters, an outsourcing alliance can present both the known and the unfamiliar. Leaders must recognize the environment ahead in order to establish the appropriate organizational and relationship governance foundations.

An outsourcing relationship between two enterprises usually involves concurrent initiatives. (Some call them projects.) Some initiatives are more strategic, some are more tactical, and some are clearly operational. Some involve complex multi-organizational linkages, while others are simple with straightforward connections. The initiatives usually evolve as the relationship progresses.

In each outsourcing relationship, the individual projects can be quite different and require the use of different types of capabilities and management style. Identifying the initiative's characteristics sets a strong basis for aligned expectations and appropriate organizational relationship behavior. It also helps in choosing the corresponding governance foundations.

This discussion recognizes the convergence of two broad categories of relationships: those founded to maximize routine proceedings to deliver efficiency and low cost, and others that exercise innovation and exploration to create additional value. These categories consist of four value exchanges, which as a whole are called the Relationship Portfolio.

The Relationship Portfolio provides a framework for dialogue between the parties involved. It can be used to assist in discussing individual projects or the complete amalgamation of the alliance's initiatives.

Introducing the Relationship Portfolio Model

The Relationship Portfolio depicts the spectrum of value exchange types concurrent among the organizations in the outsourcing relationship. The breadth of exchanges can range from a straightforward delivery of a commodity at a market price to a complicated bundling of licensing and royalties contingent on shared risk.

Within the Portfolio are four segments, or value exchanges, that are characterized by differences in expected value and outcomes. A Relationship Portfolio can contain one or more of the value exchanges: Transactional, Value-Added, Specialized, and Unique. These can be depicted as positions along a horizontal bar.

Transactional	Value-Added	Specialized	Unique

A **Transactional** value exchange is based in commodity. The Terms and Conditions are specified in the contract, and a variety of providers in the market could fulfill these specific requirements. Generally, speed and price are most valued by the customer.

A **Value-Added** value exchange has the supplier learning more about the needs of the customer and bringing specific expertise to the table in addition to the commodity fulfillment. The customer values this additional expertise and is willing to pay a modest margin over the commodity type of exchange.

A **Specialized** value exchange is focused ultimately on a differentiating business outcome, in which there is a need and a capability to integrate each other's related processes, customize them as appropriate, and combine expertise and resources. Both parties jointly define the design and delivery of the business outcome.

A **Unique** value exchange is formed with the purpose of fundamentally altering the competitive capability of both firms, with a sharing of the resources, risks, and benefits. The conditions needed to form this type of exchange are rare.

Though these value exchanges apply consistently, the "optimal" portfolio for an outsourcing relationship is situationally defined–that is, achieving an ideal relationship depends on its specifics.

understanding the relationship portfolio

The concept of "portfolio" may seem a strange term to relate to alliance relationships, but consider this: With each client or supplier, you may have different initiatives, each with slightly different relationship qualities. The collection of those initiatives, much like an investor's collection of various company's stocks, makes up the portfolio.

Making sense of these differences helps leaders get the most out of their outsourcing relationships with the least possible outlay of resources. Ensuring that all parties in the relationship have a shared definition and agreement on the nature of the value exchange needed for the project or situation is critical.

Like each vegetable can be considered separately or as part of a greater whole (the meal), the relationship portfolio provides a lens to look at your initiatives as separate value exchanges, adding up to the totality of the overall relationship.

THE RELATIONSHIP PORTFOLIO VALUE EXCHANGES

Value exchanges range from the simple interchange of money for goods to a long-term, enterprise-level collaboration with shared resources and responsibilities. Most initiatives resemble one of four types of value exchanges–Transactional, Value-Added, Specialized, or Unique–depending on the degree of involvement and the complexity of the agreement.

The importance and reason to engage for each exchange is based on the desired outcome. Commodity-based exchanges strive for value created out of forming efficient routine, and effort beyond those boundaries is usually wasteful. Conversely, innovation-based exchanges require exploration and joint action to create value, and moving too quickly to routine can leave opportunity unrevealed and thus lost.

Transactional, Value-Added, Specialized, and Unique value exchanges each have a place in the Relationship Portfolio and can be simultaneously important in an outsourcing relationship. The overall relationship governance must be formed to encompass the entirety of the outsourcing alliance. It is important to always think “portfolio” when considering relationship alignment.

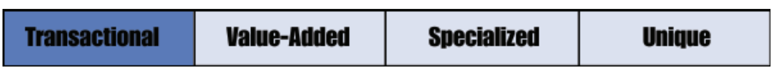
The commodity-based value exchanges

The **Transactional** and **Value-Added** segments of the Relationship Portfolio are commodity-based value exchanges. Both involve an exchange of goods or services for money, with the parties' involvement limited to what is required for simple transfers.

Transactional value exchange

A Transactional value exchange gives emphasis to the simple exchange of a commodity (a good or service) for money. In this transaction, the customer's priorities, predictably, are low price, accurate service, convenience, and efficient interaction.

The terms and conditions of the value exchange can be specified and measured clearly. Interpersonal relationship behavior is not a noteworthy attribute in the selection of a provider, as speed and convenience are often the result of automated processes. Several suppliers are available in the market to fulfill the commodity requirements, so price can be compared and judged as fair.



The commodity is sold as is. No modifications are made to customize the product for the customer. Providing or receiving a mass-produced product or service that is the same for each customer usually qualifies the exchange as a Transactional.

A simple Transactional value exchange can be described as "I'll give you some cash if you give me that newspaper, and we'll both be happy!"

In a Transactional value exchange of an outsourcing alliance:

- Competition exists. The customer has many options to acquire the same good or service.
- Economies of scale and efficiencies of interaction factor into the price.
- The transaction timeframe is specific and limited.
- Personal relationships are not part of the proposition, and no tangible or intangible value is ascribed to them.
- Both parties can easily conform to a contract that explicitly specifies the deliverables.
- The conditions of satisfaction can be expressed and met.
- The product or service specification is well-defined and its service level is controllable due to the stability in the environment.
- Procurement leadership can be critical to success.
- Trust comes in the form of contract performance.

transactional value exchange in action

Picture yourself at an intersection with a self-serve gas station on each of the four corners. None of the stations gives personal service and, although TV ads for each brand of gasoline claim superiority, you consider gas a commodity. Your business goes to the station with the lowest price and/or the greatest convenience, such as pay-at-the-pump capabilities or an available pump for the side of your car that has the gas tank opening on it. Your gas station of choice will be whichever station meets the most requirements.

In the IT world, an example of a Transactional value exchange could be the standard outsourcing of a help desk. This would be associated with a reality that there are some universal requirements for a help desk, that there are many end users, and that the requirements are fundamentally the same for all clients. The primary focus in this exchange is to drive down costs, and it can be achieved through economies of scale.

Value-Added value exchange

The Value-Added value exchange involves initiatives that have requirements beyond simple transactions. Speed and price remain important to the Value-Added exchange, but, in contrast

to Transactional value exchanges, greater supplier expertise is needed to perform some customization of the product or service.

In everyday life, common Value-Added relationships can include the services provided by a doctor, financial planner, childcare provider, or haircutter. These relationships differ from simple Transactional exchanges, such as those that take place at most grocery store check-out counters, because there is an expertise provided by the particular supplier that is greater than that required for trading money for a fixed product.

Trust begins to take on some intangible attributes because the product or service is not perceived as an easy-to-duplicate commodity. We expect these professionals to remember us, know our needs, and remember our preferences. We anticipate that they will meet or exceed our expectations and thus become recipients of our trust and return business.

Although a sense of loyalty is developed over time in this type of exchange, the supplier cannot neglect the basics. While it may be inconvenient to switch suppliers and seek out another expert to trust, the customer's investment is limited and can be left behind when basic expectations are not met. The provider would be wise to presume that the customer's perception of the good or service is mostly that of a commodity with some extra value added to the mix.

A customer is generally willing to pay a bit more for the added expertise inherent in the Value-Added exchange – perhaps a 5% to 15% premium. For example, we typically do not choose the surgeon whose services are the fastest and cheapest; we first look for expertise and capability to execute. We will, however, shop around when the surgery is not an emergency and the prices appear overly inflated.

Because of the commodity foundation of this exchange, the supplier is unlikely to change processes to accommodate each customer. However, the supplier may be willing to tailor some standard product or service as long as it does not compromise providing the fundamental value created by leveraging economies of scale. This type of value exchange remains fundamentally about goods and services enhanced with required supplier expertise, which can be specified and exchanged for money.

A Value-Added exchange of an outsourcing alliance is characterized by situations in which:

- Fewer supplier options are available.
- The commodity characteristics are similar to those of the Transactional exchange, yet some additional expertise is required in the equation.
- The supplier learns more about the needs of the customer in order to bring specific expertise to the situation, or the expertise leads to supplier preference.

- The customer values the expertise and is willing to pay a modest margin over the charges of a commodity supplier.
- The supplier may need to tailor a standard product or process.
- The presence of some collaborative behavior seems to create a greater team synergy between the provider and the recipient.
- Trust develops as performance criteria are met.
- There is mutual definition of contract around the desired outcome.

value-added exchanges in action

The difference between Value-Added and simple Transactional relationships can be seen in the operations of the gas stations previously used as an example. If one of the four gas stations has an onsite work bay and mechanic trained to service a customer's particular car, the customer might tend to patronize that station instead of the others, even if they offered slightly higher-priced gasoline. This differentiation grows as the customer develops an ongoing relationship with the mechanic around the particular needs of the car and its record of repairs.

An IT example of a Value-Added exchange could be disaster recovery services. Although all IT organizations require this service and can benefit from the economies of scale of sharing a recovery site rather than maintaining their own, the solution must be tested and tailored for every client.

Convenience, low price, and efficiency are the preferred characteristics of commodity-based value exchanges.

The innovation-based value exchanges

The two remaining segments in the relationship portfolio model, the Specialized value exchange and the Unique value exchange, are fundamentally different from the commodity-based relationships already discussed. These innovation-based exchanges require more extensive collaboration between the parties. The objectives of these initiatives expand beyond the efficiency and effectiveness goals of commodity-based exchanges. The innovation-based exchanges, by their nature, entail some degree of enterprise-level exploration, solution, and transformation.

Transactional	Value-Added	Specialized	Unique

As the supplier and customer become more involved in each other's activities, the complexity of the relationship tends to increase. The customer expects the supplier to be involved in the recognition, exploration, and definition of current and future initiatives. One of the mistakes often seen is the attempt to manage and measure these relationships as if they were all commodity exchanges.

Specialized value exchange

While a supplier maintains customized expertise for a client in a Value-Added relationship, in a Specialized value exchange the spirit of collaboration and innovation becomes much more noticeable. The supplier works to integrate processes with the client, and perhaps even with other suppliers or subcontractors on the client's behalf (although each of these parties retains its own business identity).

Value is derived from optimization across organizations, and not within an individual organization or organizational function. This segment's value is based on a high degree of knowledge of the subject at hand, as well as considerable familiarity between the parties. Specialized value exchanges require a greater need for agreement and understanding.

Transactional	Value-Added	Specialized	Unique

Organizations enter into this type of value exchange for a variety of reasons, including extreme market shifts, intense customer pressure, or the complexity of the product or service being formed. In this segment, forming appropriate relationship governance is essential to developing satisfactory solutions.

This outsourcing relationship is outcome-oriented and, compared to a Transactional or Value-Added exchange, requires robust relationship governance to implement and maintain. By establishing a context for those involved in these initiatives, the working relationship can effectively meet environmental turbulence head-on and leverage it to their shared advantage.

Identifying the appropriate situations to explore is important in the Specialized segment because these exchanges have comparatively higher risk and are more resource-intensive than the Transactional and Value-Added exchanges. The attraction for this journey is the discovery of treasures hidden in the "unfamiliar waters"– exploring these opportunities can be simultaneously fabulous and frustrating.

In some instances it makes sense to invest money, time, and attention into the mutual relationship and joint involvement along with paying for the product or service. This could involve spending money to integrate technology, or investing time and attention in developing cross-organizational business processes that involve many members of both organizations in order to draw from the different competencies and capabilities available to the alliance. The desired outcome must warrant this expenditure of resources and its associated risks.

The specific needs and means to achieve the desired outcome are usually somewhat ambiguous. Successful relationships require the involved parties to act in each other's interest, and, as a result, can be difficult to structure, measure, and manage. Qualitative and quantitative measures are available and required in such relationships.

These issues become the province of **relationship governance**, and appropriate governance arrangements thus become an important domain of mutual interest that require much more than the how-much-by-when measures of commodity exchanges.

In a Specialized value exchange:

- The origin may be somewhat loosely defined, such as a perceived need for a complementary relationship that can distinguish itself in the marketplace with an expectation of success through shared expertise, resources, or both.
- Specialized and differentiated characteristics describe an interdependence that, when directed productively, enables the design, development, and achievement of a previously unattainable outcome.
- The parties identify and leverage the joint capabilities to integrate each other's processes, customize them as needed, and then work to collaborate with this combined expertise.
- The arrangement is sometimes called a "virtual organization" where organizational boundaries become blurred and relevant information becomes freely shared.
- Value comes from optimization across organizations, not simply squeezing out the efficiencies of a single organization.
- Trust is based on demonstrated competence.

specialized value exchange in action

A homeowner wants a fantastic-looking property, and a landscape architect may take the contract even though “fantastic-looking” is ambiguously defined at best. This initiative is categorized in the Specialized segment, because the homeowner and landscape architect must put their heads together to combine the homeowner’s aspirations and experience of the property with the landscape architect’s design inspiration and horticultural expertise. Together, they discover and work toward develop an understanding of what constitutes “fantastic-looking” for this property. The collaboration delivers an outcome that could not exist without each party’s contribution.

An example of a Specialized initiative in the IT environment is a situation where the client organization recognizes an opportunity to differentiate itself in its market or industry, but does not have all of the expertise to explore the possibilities and formulate a solution. IT and multiple functions in the organization, as well as multiple parties from the outsourcer, would come together to explore the idea and create a solution. Most business transformation initiatives qualify as Specialized exchanges, given the associated integration necessary between the parties to design the optimal solution.

Unique value exchange

In a Unique value exchange, two or more organizations collaborate with customized expertise and process integration. The shared competitive capability is clearly greater than each organization's individual abilities.

Transactional	Value-Added	Specialized	Unique

The focus of the shared activity is on the long-term outcome desired by both parties. The attitude of customer and supplier is non-existent in this value exchange; it is more in the spirit of partnership (and could potentially be formed as a legal partnership).

What differentiates the Unique from the Specialized value exchange is the degree to which the responsibility to achieve the desired outcome is shared by all parties that have committed resources. In fact, the litmus test for identifying a unique relationship is the presence of a shared-risk, shared-reward agreement. All work to achieve the goals together, or together they all fail.

Organizations usually enter Unique value exchange arrangements in order to succeed in doing something they cannot accomplish without collaborating with that specific partner. Often, the result centers on developing an ability to deliver a unique capability. Integration between the two parties (firms) is seen as critical to achieving the market differentiation possible from this type of value exchange.

Examples of Unique exchanges are rare when compared to the frequency with which the other value exchanges are seen in organizations in general.

A Unique value exchange in an outsourcing alliance is seen where:

- Relationships are formed with the purpose of fundamentally altering the competitive capability of both firms through shared resources, risks, and benefits.
- The shared responsibility of the parties involved is the true differentiator of this type of value exchange.
- Unique value relationships are rare due to the risk associated with the upfront investments required and determination and distribution of the resulting profits or losses. This type of relationship requires resources for frequent interaction.
- Shared innovation is clearly specified in the agreement.
- Trust goes deep into the basic character values of the participants, by being based on reputation, expertise, shared metrics, and common compensation.

unique value exchange in action

The difference between Specialized and Unique exchanges rests in the sharing of risk and reward. If, at the end of the day, one party is paid, and the other party owns the solution, that would place that initiative in the Specialized segment. If there were joint risk and reward assumed, then the categorization would place the initiative in the Unique value exchange. Almost any initiative that could be categorized as a partnership, or a joint go-to-market, would be a Unique value exchange, inside or outside the IT organization.

In innovation-based value exchanges, both parties jointly explore the best path to the desired solution. They're in it together.

APPLYING THE RELATIONSHIP PORTFOLIO

The important insight gained from using the Relationship Portfolio is the recognition of the differences between commodity-based value exchanges and innovation-based value exchanges. Outsourcing relationships based primarily on commodities require more of a ready-aim-fire approach to management and governance. Those that differentiate one or both parties with competitive advantage in their respective marketplace require a ready-launch-steer approach.

Sustaining the alliance relationship

When the relationship portfolio concepts are understood and applied, the joint outsourcing team can recognize the capabilities and opportunities that exist among their shared resources and can leverage these strengths to form a clear context for producing value. The portfolio can be used to map individual initiatives and to validate expectations and relationship governance alignment. It can also be used to look at the relationship in its totality, and determine whether the overall organizational connections support the intent of the relationship.

The four segments within the Relationship Portfolio are characterized by different expected values and outcomes. Each segment emphasizes different aspects, but all initiatives interrelate to form the total relationship (sometimes called the "center of gravity").

This portfolio framework serves as a starting point for leaders to either launch a new relationship or begin the process of enhancing existing relationships. One of the principal applications of the framework is to help examine the nature of the relationship between the two parties; for example, does one party consider a certain initiative a Transaction while the other party defines it as a Specialized relationship? Does one party believe the overall purpose of the relationship is to cut cost, while the other party thinks it is to create innovative solutions that cross interorganizational boundaries? The frictional cost associated with these mismatched expectations is immeasurable, both in financial and in human terms.

The complexity of managing multilevel relationships (simultaneous Transactional, Value-Added, and Specialized value exchanges) requires a governance structure that is also multilevel. The application of this portfolio framework can improve organizational clarity and encourage efficiency and creativity.

The following table outlines some of the key attributes of an outsourcing relationship and illustrates how they vary based on the relationship portfolio.

	Transactional	Value-Added	Specialized	Unique
Relationship Focus	Product or service viewed as a commodity. Value emphasized is low price.	Predominantly operational efficiency. Value emphasized is expertise in leveraging economies of scale.	Process integration to enable joint focus on a business outcome. Value emphasized is integration of expertise to create and customize solutions.	Unique product(s) and/or service(s). Value emphasized is the co-creation of strategic advantage in the marketplace.
Capability Leverage	Ability to have specific product or service requirements fulfilled.	Ability to have specific competencies identified and deployed.	Ability to jointly complement competencies with specifically allocated expertise and skills.	Ability to leverage strategic intelligence and resources for mutual gain.

	Transactional	Value-Added	Specialized	Unique
Planning Horizon	The immediate deal. One agreement at a time.	An ongoing exchange, including the search for and creation of additional value. Operational planning in the near term.	Expectation of continuing joint contribution. Planning for strategic positioning for enterprise differentiation.	Agreement of continuing joint ownership. Interlocking strategies to co-create market differentiation.
Nature of Trust	Confidence that the agreement for specified products and/or services can be competently fulfilled.	Confidence that the expectation of performance can be executed, with expertise applied to accommodate details.	Confidence that each party makes decisions benefiting the overall relationship, based on merit rather than partisan gain.	Confidence that both parties share in the benefits and risk associated with the relationship goals.
Metrics Focus	Tracking of compliance to terms and conditions	Benchmarking of service levels to "best of breed."	Effectiveness of relationship processes.	Business performance, shared incentives.
Relationship Mode of Operation	Invitations to competitive bids.	Incumbency favored with satisfactory performance.	Cross-organizational coordination of functions and processes.	Strategic investments, mutual learning.
Relationship Perpetuation Channel	Procurement or purchasing department contracts.	Assigned provider representative and account manager interface.	Relationship managers coordinate joint programs.	Senior managers jointly prioritize initiatives and investment patterns.
Process Linkage	Independent processes utilizing standard interfaces.	Linkages are adapted or augmented at interface points.	Interdependent, interwoven activities and processes.	Reconfigured joint strategic processes and decision-making.
Information Attributes	Data about price, product, and/or service attributes.	Information useful for planning and near-term adjustments.	Intelligence about business performance and methods for joint improvement.	Knowledge of proprietary methods, strategic direction.
Technology Enablers - Information Mechanisms	Monitors of efficiency.	Roll-up / drill-down reporting, outlooks and commentary.	Integrated workflow, customized applications	Frame-breaking collaboration, innovative technology deployment.

Initiatives in the Transactional and Value-Added segments usually accommodate more straightforward terms and conditions. These initiatives typically face conditions of lower profitability and higher competitiveness, so it is important to focus on their operational excellence to ensure that customers are satisfied on a day-to-day-basis.

Initiatives in the Specialized and Unique segments are generally considered more strategic. The form of deliverables and the value to be captured in joint development typically start as ambiguous, then are clarified for both parties as they learn to gain a greater appreciation of the choices that are available and the choices to be made. The potential and realized value of these initiatives should be monitored and communicated continuously to participants to ensure that all expectations are being addressed.

If the initiatives are tightly clustered into one segment, you may consider looking for opportunities in the unpopulated segments of the portfolio. This may be an indicator that the client's organization views the provider's capabilities in only one segment–maybe only as a supplier or only as a strategic partner. Capabilities may possibly exist that can expand the relationship to take on an added opportunity within another portfolio segment.

If the initiatives are widely dispersed across all segments, leaders should be vigilant to look for common patterns and synergies. Initiatives in the Specialized and Unique segments may reflect high expectations set with the client, while the relationship characteristics are actually positioned as Transactional or Value-Added by the provider. If not clarified or taken into account, a strain can emerge in the relationship and lead to serious misalignment. While there are significant potentials in cross-segment initiatives, there is an increased chance for serious difficulties if not carefully nurtured.

Multiple and changing value exchanges

An alliance's Relationship Portfolio can–and should–be examined in two ways:

- At a given point in time, for its inventory of value exchanges
- Over time as initiatives mature or expand

In complex relationships each segment likely will be represented, either as a primary focus of the alliance or in a supporting role. In acknowledging the presence of the multiple value exchanges, it is important to avoid targeting just one segment. First, think about the segments and characteristics as independent, and then analyze the alliance portfolio in total to determine whether the sum of the initiatives adds up to the desired whole portfolio.

Examining the attributes of the desired values helps to determine the appropriate coordination of protocols and measurements to make the relationship successful. This is becoming known as the world of **relationship governance.**

Expectations of value creation, as expressed in the portfolio, should be aligned with the relationship governance. This will facilitate the activities of the parties involved in actually producing the desired value, and thereby help maximize the potential of the relationship.

It helps to treat knowledge of the relationship portfolio segments as a lens through which to view the overall portfolio and then zoom in on different and changing expectations that may be a source of misalignment as the relationship matures.

Relationships that are left to chance or neglected will move toward Transactional value exchanges over time. It takes focus and renewal energy to ensure a robust alliance relationship that continues to provide value over time–opportunity, latent capability, or presence alone does not make a Specialized or Unique relationship. These require an intention to create value in that segment linked to creating an appropriate governance structure that encourages the free flow of ideas and information. Appropriate processes and protocols are needed to support work and behavior to the desired end.

When considering the totality of the outsourcing relationship, all parts (the vegetables) do add up to a whole relationship (the stew). Consider the totality and determine whether it matches the relationship intent.

ESTABLISHING THE FOUNDATION OF THE OUTSOURCING RELATIONSHIP

The previous section covered the different types of value that may be pursued in a strategic outsourcing alliance. This discussion now turns to ways to establish strong relationship foundations so that value can be realized.

A significant contributor to success is a shared understanding of the spirit of the alliance. One means to build, communicate, and grow that shared understanding is through establishing relationship governance.

In the articulation of expectations, each organizational party can discuss their assumptions for the alliance. There is no single right or wrong relationship governance format, but an effective one has the breadth to include all of the value exchanges being pursued within the relationship portfolio.

Relationship governance must be uniquely shaped for each alliance. Active steering of the relationship through alliance governance requires monitoring the migration of initiatives as they mature within the relationship portfolio, as well as adding new opportunities in a pattern of renewal.

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what is an alliance?

We use the word alliance here only to mean an agreement by two or more parties to act together in a cause. It does not imply any legal arrangement or any particular degree of connectedness.

Compare your complex environment to the jazz band and the orchestra

The ready-aim-fire and ready-launch-steer contexts are both valid and each has its place. As an example, consider the rules and conventions in orchestrated music compared with those of jazz improvisation. An orchestra requires written scores for musicians who follow a conductor. Learning and performing the score is usually a straightforward, ready-aim-fire effort.

In contrast, jazz combos ready themselves by learning stylistically standard chord progressions. Based on subtle signals they learn to interpret from each other, the leadership of the combo is passed around the group. The players can smoothly support a soloist, who launches into a freeform riff and steers the music through the jam, until he signals the upcoming end of the solo and the return to the original theme.

The well-detailed score and the improvisational framework are both music but in different contexts. The same player may be able to play in both styles as long as the context is clear.

The point of this example is the leader's requirement to form the context, or frame, for the talented players who work with them. The more they understand the signals, the better they're able to play with others in a productive manner. Relationship governance is not about control; it is about creating the frame for all parties engaged in the relationship to understand what is desired overall and what their part is in applying their many talents to the outcome.

After launching the alliance, active steering is required to govern a productive pursuit of value

In the first part of this book, a ready-launch-steer approach was suggested. The outsourcing of professional services involves leading knowledge workers, for whom tighter supervision does not directly lead to guaranteed success. Leading an alliance requires more than supervision. It requires setting context as well as directing, so that workers are productively realizing value rather than overcoming interorganizational friction.

Business leaders play roles in both the management and the governance of organizations. Managing and governing are interrelated but somewhat distinct. Governance is used here in a broader sense than managing.

Managing typically is more concerned with giving direction for a business and coordinating work (usually of subordinates) in the interest of achieving specific objectives.

Governance is not simply management on a longer horizon. Governance **forms a context** in which business activities, including managing, take place. This context sets boundaries for organizational activities, demarking acceptable or desirable directions. Clear boundaries guide individuals to assess whether their actions are or are not appropriate. Left to emerge without explicitly expressing the desired relationship governance, old habits–some good, some bad–will form the de facto, or emergent, governance.

Because only those on board are in the position to sense the environmental forces, the leader must set the destination and form the context through which the crew members will know their roles and their authority in making decisions.

Members of an alliance board enact relationship governance by formalizing policies and encouraging behaviors that further the alliance's aims. These policies set the tone for working on shared initiatives, similar to an "invisible hand" guiding appropriate actions. In contrast to governance, managing actively pursues formal goals with defined roles; at a minimum, communications are funneled through a central figure, often a project manager or program manager.

Another distinction speaks to the role-oriented nature of governance: If a problem continues to exist despite any combination of manager and subordinate assigned, it probably indicates a governance issue rather than management failure. Relationship governance in outsourcing is a result of the subtle interplay between policies set by leaders and the way workers respond to managerial direction.

Alliance leaders must be active in ongoing steering

Executive involvement is clearly important to ready and launch an outsourcing alliance, but the reasons for continued steering are seldom recognized. Even with experienced project managers and highly skilled professionals, the emergence of turbulence within joint initiatives is not unusual.

Clearly, the motivation for two organizations to work together is common interests, but a series of unforeseen complexities or omissions can result in unrecoverable wasted time. If left unchecked, finger pointing and blame placing can escalate on both sides, and ambiguous issues that start at the working level are pushed up each organizational ladder until they reach the alliance board for resolution. Interventions by one organization's management without consulting the other can produce further divisiveness. Lack of progress is followed by disappointment and then frustration.

A common pitfall is for executives to presume that alliances can be guided with a light touch, much as ongoing operations in an autonomous organization are. Setting direction, putting experienced leaders into authority, and establishing competent work teams are all rudimentary steps in organizational design; beyond that, relationship governance requires agreement on common norms and expectations among the alliance.

For example, in an outsourcing alliance, two or more ways of doing one thing may be equally valid, and not addressing these differences at the start can result in unpleasant surprises or missed opportunities. Addressing these differences case-by-case as they arise can be time-consuming and may distract from the external turbulences that should be the primary focus.

The helmsman steers while the crew brings their capabilities to bear on executing their responsibilities as a member of the crew. The captain may choose the destination, but without a capable crew that works together, the goal cannot be reached.

When the light touch fails, the pendulum may swing to the other extreme as extra supervision is added. Instead of a business process flowing seamlessly back and forth from workers in one organization to their counterparts in the other, additional intermediary roles may be added to ensure that work is done "right." These new roles are filled by boundary-spanners who translate the conventions and language of one organization to the conventions and language of the other.

While this may be necessary in extremely technical situations, it generally leads to creeping bureaucracy and greater inefficiency. Again, energy that should be focused on dealing with external turbulences is expended in internal, self-inflicted churn.

Establishing strong relationship governance at the outset of the alliance can minimize or prevent most of these pitfalls.

RELATIONSHIP GOVERNANCE FOUNDATIONS

When the need for relationship governance is understood and agreed upon by leaders from each organization, a statement of intent and the corresponding governance foundations help to focus and define the direction and pace of the alliance. These relationship elements should be emphasized in creating your relationship governance: relationship intent, joint operational protocols, decision protocols including committee structure and communication protocols, and the relationship review process.

It might be helpful to think of relationship governance as building a pro forma–a first form–of how the organizations will work together. It is a living document that is a touchstone for "how things are done around here." When bringing multiple cultures together in a complex environment of multiple value exchanges, leaving the definition of "what is desirable in this relationship" to emerge individually among each participant in the outsourcing relationship will result in self-imposed friction and turbulence. Forming the governance for the relationship will give a guide to the participants, so their focus will be on creating value rather than interpreting faint signals of what is desired.

Consider this concept of *pro forma* in the construction industry. It's another way to think of what we are labeling relationship governance in the IT outsourcing environment.

the pro forma in real estate and construction

Proposing, modifying, and referencing a pro forma document is key to managing activities in the real estate and construction industries. The existence of the pro forma is critical to governance of the various design, procurement, construction, and facility management activities. The pro forma provides a structure within which the various participants can operate to serve their individual interests while supporting the mutual interests that are defined as a project. Where the project context is unusually challenging, the pro forma structure is less exclusive and more dynamic.

The pro forma begins as a way to structure a pool of early presumptions, clarify the operational assumptions that define success, and then give an enduring structure to govern the wide array of organizational relationships essential to a successful project completion. The presumptions generally include the physical, social, technical, and financial aspirations of the participants. While an array of values can be included in the joint endeavor, the pro forma provides a means to focus on realization of industrial value.

The statement of relationship intent should define the organization's direction

A clear statement of the relationship's intent—why this relationship exists—should include the trajectory of the purposes, objectives, and goals to be pursued immediately, as well as activities that seem to have potential as the alliance evolves. These should be linked to an expression of the business value that can be jointly created or captured.

As an example, in a discussion around an outsourcing relationship's intent, innovation is often portrayed as important to an alliance, but the type of innovation in the pursuit of greater efficiency leading to cost reductions is considerably different from innovation to create and launch a breakthrough product for the marketplace. The statement of intent clarifies the differences.

If the alliance intent is clearly articulated, every individual within the organization should be able to draw a connection–however indirect–between his or her activities, and the direction for the alliance as a whole.

Alliance intent can include direction, breadth, and perpetuation:

- Every member of the executive team in the organizations involved should adopt the direction unanimously. It defines the purpose and how to fulfill it. Over time, the leaders must ensure that the context continues to be valid.
- For capturing synergy across multiple initiatives, the breadth of the alliance may need to contract and expand as the environment evolves. Keeping all parties informed of related decisions enables them to recognize and leverage, across a broad spectrum of issues, opportunities that may be present but unfulfilled.
- Areas in which the alliance has been successful are worth perpetuating, but less-productive value exchanges should be revisited and reconsidered. Establishing the appropriate roles to decide on the future of the alliance, in its parts and as a whole, sustains longevity.

If the alliance intent is limited to routine activities, perhaps procurement and/or account management representatives can oversee it, with operational managers involved as appropriate. An alliance intent that promotes initiatives, which reposition the competitiveness of one or both organizations in the marketplace, requires involved leadership. Without a documented, communicated relationship intent, the trajectory can fall off course.

Signals that the alliance intent is not a shared view include:

- One organization expending significant resources toward developing the relationship, yet finding it difficult to capture the attention of the other organizational partner.
- An initiative continuing to drift for months, with its immediate managers uncertain as to whether it is important work or a non-critical effort that should be terminated.
- Acknowledgement of work completed or deliverables produced as specified, yet dissatisfaction that the relationship is not fulfilling its potential.

If this element of the relationship pro forma is missing, there will likely be "self-imposed friction" as the people involved in the agreement are left to interpret for themselves what is desired.

Geese instinctively know how to fly toward their intended destinations in formations that buffer environmental turbulence. Relationship intent begins to form the context for the outsourcing relationship, so that clear roles, boundaries, and destinations can inform behavior.

The alliance may also miss opportunities to leverage joint capabilities for additional value creation.

Joint organizational protocols illustrate exemplary practices

By establishing a set of joint organizational protocols, the organizations are explicitly asserting the manner in which they want to work together. They reinforce a message that governance is not just an idea or a story, but is mutual action that shapes and is shaped by all parties in the alliance.

Organizational protocols are a simple way to guide actions by each party away from predictable missteps and toward exemplary practices. Protocols do not represent an exhaustive set of procedures or roles, but instead suggest some practical first steps commonly taken in joint action. They are a set of shared assumptions regarding what is desirable in this relationship. Unusual situations may call for alternative steps, but a formal declaration of organizational protocols sets a standard of expectations for parties to work together.

The articulation of an organizational protocol may represent the anticipation of a circumstance where an alliance team will benefit from a protocol. Newly formed teams need to work through ambiguities about the most effective way to do things, and protocols can draw on formally established procedures with which at least some are familiar. More often than not, however, the joint organizational protocols are established to counteract unfavorable perceptions from prior experiences, or to specifically discourage some undesirable practices from previous situations.

Shifts in the environment–such as financial, technological, or marketplace–may require a change in the alliance intent and, consequently, the other governance elements. It may be difficult to make that mental switch in which yesterday's vendor becomes today's alliance partner, and it is natural to fall back on known behavior under stress. Explicit organizational protocols can serve as reminders to all parties of appropriate attitudes and behaviors in the current alliance.

The focus of these protocols is on organizational actions rather than interpersonal actions. It is difficult to separate the two; it can be hard to judge whether an accomplishment is a result of individual style or deeply rooted organizational culture. Between organizations, these differences in approach are resolved over time, but they can produce frustration until they are recognized as the source of friction.

Explicitly guiding individuals to act on behalf of the joint organization in preferred ways can accelerate integration toward a coherent direction. Some examples where joint protocols guide action include:

- Organizational behavior: What are our first steps in working together? In this new culture we are creating between us, what are the norms we agree to hold?
- Visibility to end customers: Do both organizations usually present themselves to a third party as joint partners, as independent entities, or with one organization completely invisible?
- Exclusivity or primacy: What is the normal scope of business with the other organizational partner? Is it owed an exclusive franchise, a preferred position, or simply registration on an approved list?
- Joint interpretation: What is the desired approach to conflict management? The best time to decide how to deal with disputes is before they happen. What do we do if we forget a protocol and act inappropriately?

Left to chance, protocols will gradually emerge but may not be in line with the intent of the relationship. If models of desirable organizational protocols are not declared, slower and more

Forming organizational protocols can circumvent cultural confusion in the joint organization.

drastic instruments of governance (such as escalation, arbitration, or penalties) may overload leaders with requests for clarification. A few simple guidelines are usually sufficient to preempt such frictions.

when joint organizational protocols are ignored...

It is natural for leaders to want a relationship that is flexible enough to consider alternatives, and of course they want the parties to act in each other's best interests.

An example of the major need for joint organizational protocols is evident in one alliance: One organization, operating with a general feeling of unfairness and having been gouged by a previous "partner," made 300 copies of their contract for employees at various levels, effectively resulting in 300 contract negotiators on their side. This resulted in reduced productive activity with no effort dedicated to explore new options, because both parties were spending time interpreting 300 sets of opinions.

Without leadership's explicit acknowledgement of "though the other relationship didn't work, it's time to move past it and determine the behavior in the new alliance," the parties set a downward spiral for their new relationship.

This is why protocols are needed and must be stated up front. It makes the purpose or intention of the relationship more real for those involved, and helps allay old fears by building the story about how both parties will behave in this new situation. It helps everyone to understand their assumptions and work through them.

Decision protocols clarify authorities, influences, and impacts

The relationship governance pro forma should include the definition of domains where authority, consultation, and participation in decisions is clearly outlined. Simple rules such as "ask the boss" or "the customer is always right" break down in the complexity of an interorganizational structure. For two or more organizations to work as one, the scope of decision-making impact should be considered at the same time as the locus of authority. A rigorous charting of decision processes should not be necessary, but understanding the paths for a few key group decisions can set a pattern for other choices that must be made.

Decision protocols can be added to, adjusted, or deleted as required, but initially forming them is particularly important in the early stages of a relationship. The acknowledgement that decisions are not made without proper consultation and consideration fosters a spirit of working together.

Each decision protocol is specified over a domain, such as the consideration of opportunities, adjustments to the scope of written agreements, or filling key senior positions. With a

Without decision protocols, the huddle, where predefined plays are considered and choices made to execute or vary the chosen plan, does not occur. The opportunity to design and execute the "best way to play" in the given situation is lost.

continued affirmation that the alliance will continue, executives can delegate many subsequent operational choices to managerial levels.

Within each domain, some decisions will be recurring and some will be infrequent. A clearly defined decision protocol includes any of the following individuals in the joint organization:

- Those responsible for ensuring that a decision is reached
- Those accountable for having made the decision when the results or consequences unfold
- Those consulted for advice or input into forming the decision
- Those informed of the decision, as they are affected or influenced by it

The decision protocols may also suggest some aids for decision making, such as facilitators for structured meetings, spin-off threads for ad hoc councils to work through details, or a routing path for sign-offs to ensure concurrence.

Communication protocols ensure that information flows appropriately

Parties throughout the alliance should be kept informed about decisions both through a formal communications plan and informal information flows. Thought should be given to who should be informed of which decisions and by which media (written, phone call, personal visit, e-mail). Left to chance, the "facts" that will inform the organizations' daily choices spring from the rumor mill, rather than accurate sources.

Beyond formal communications, informal interactions should occur naturally within a well-functioning alliance. Guidelines may encourage proactive individuals to volunteer information that might influence peers in the partner organization to take actions with joint benefits. Roles within different organizations have different views of the business (internal and external) and

Information must flow between the alliance organizations for well-informed decisions to be made and executed.

can often find creative ways to move forward if they pool data and make sense of it together. This is a less-structured activity than decision-making, and it can be a key indicator of two organizations working as one.

Establishing interorganizational norms such as informal lunches, quick e-mail messages, or regular telephone conversations can encourage these less-formal communication protocols. The content of the information passed between organizations may include:

- **Progress on related work**: Many business processes are tightly coupled, so knowing that an upstream step is running a little early or late allows for a potential minor rescheduling.

This could relieve undue stress either on the supplier, the recipient, or both.

- **Shifts in demand or resource availability***:* The organizational party closer to the end customer is better positioned to know when demand is accelerating or slowing, whereas the party closer to raw materials has a better perspective about whether supply constraints may be imminent.
- **Upcoming breakthroughs in technology or methods:** If a new component or technique is about to be released, both organizational partners may save some effort by communicating this in advance.

Setting up casual venues and suggesting general topics can help to initiate informal communications over organizational boundaries. The goal is not to make presentations or speeches, but to enable the flow of more subtle forms of intelligence so that choices may be influenced toward the benefit of both parties. These disclosures may not cost the organization anything to share, and may not even be completely formed or proprietary. The intelligence may be knowledge so common inside the originating organization that it is a surprise when another organization finds it newsworthy.

When individuals have worked closely with each other over a period of time, intercommunications may happen naturally. They may require greater encouragement when the interorganizational relationship is new or if individuals change roles frequently. If informal communication paths fail, scenes may arise where individuals exclaim "I wish you had told me about that land mine," or "Didn't you think we would be interested in that brick wall?"

Without a steady flow of both formal and informal intercommunications, situations of frustration may arise and breed mistrust of the motivation in the organizational partner.

Committee structure: specifying appropriate forums to make decisions

The joint leadership of the alliance should set time aside to review the relationship governance elements, apart from the urgent issues that arise in the day-to-day management of initiatives. They provide a regular venue for discussions, formal and informal communications, deliberation, and joint decisions.

Establishing standing committees or leadership councils that convene monthly or quarterly helps to keep agendas focused on important themes. In combination with the group decision paths

Many organizations believe that structure is synonymous with governance. Actually, it is only one aspect of relationship governance and should be formed along with the other relationship governance foundations.

described above, the governance of a complicated relationship can follow an approach of divide and conquer, so that only the few essential leaders can take responsibility over a specified domain.

The steering of an alliance influences a context larger than the management of a single initiative or project. A joint steering committee plays a larger role in a ready-launch-steer environment, not only for the alliance in the present, but also in the future.

Steering the alliance does not mean only looking backward at its wake, but instead looking forward for opportunities and risks on the horizon. With correctly set agendas for joint management committees and joint operations committees, immediate issues are not escalated to the governance level, and the steering committee can remain focused on long-term directional questions.

Committee sessions are most productive when run on a formal schedule (for example, monthly or quarterly) with named participants (including the chairperson), defined preparation (for and by committee members), and a well-controlled agenda. The appropriate frequency of sessions is driven by the type of value exchanges within the relationship and the volatility in the external business environment.

If the committee sessions are not properly planned, the future-oriented part of the agenda may get lost. When a steering committee spends more time reviewing numbers in the past than considering options for the future, a signal should be raised. Urgent issues appropriate for joint operations committees should be sent back from discussions among the management committee or steering committee so that the focus on the overall long-term interorganizational relationship is preserved. Without proper focus, the importance of long-term joint value creation may be forgotten.

An alliance review process provides signals for affirmation or correction

A well-defined relationship review process provides feedback that an alliance is performing as expected and that the documented relationship governance reflects reality. By scheduling a periodic assessment of the alliance, indicators of

The review process is a periodic tuning of the relationship. Assessing where the relationship has been, as well as looking forward to form the future trajectory, is the goal.

progress in defined areas of development can be checked. The findings of an alliance review can be used to prioritize initiatives or programs in relationship-renewal activities.

The form of an alliance review varies. Data might be collected from focus groups, telephone interviews, questionnaires sent out by e-mail, or a survey conducted via the Internet. The state of the alliance may require a frequency of quarterly, semi-annual, or annual investigations. Both quantitative measures of alliance performance and qualitative comments can provide a strong foundation for seeking paths for improvement. Depending on sample sizes, breakdowns by organization, management level, and initiatives may be available. The specific data generated by questionnaires is usually less important than the discussion that they engender. Briefings about findings can be followed by facilitated dialogues about how the alliance may be improved and possible additional routes to value creation.

The relationship review process closes the loop on governing an alliance by documenting indicators and perceptions that identify potential areas for focus and development. Without an alliance review process in place, dysfunctions may be written off as interpersonal issues rather than interorganizational issues that require attention. An assessment can provide clues if one of the foundations for interorganizational governance is weak or not properly supporting a joint direction.

SUMMARY

As the present dynamic environment continues to increase in complexity, the need for outsourcing alliances also increases. The ability for leaders to recognize the nature of an alliance and establish a structure in which the alliance can meet its challenges and goals with efficiency and cooperation is vital.

Where once the business emphasis was on long-term, autonomous management, more and more often the likelihood of organizations coming together to meet shorter-term or broader-range goals becomes reality. Inherent in the combining of two or more corporate cultures is the need to agree on the best direction for the new, blended organization.

In this journal, we have defined the Relationship Portfolio, which consists of four different types of value exchanges–Transactional, Value-added, Specialized, and Unique–that leaders should identify within their own alliance, both at the outset and as the relationship progresses.

When the parties look at the breadth of the agreement and the type (or types) of value exchange in which they are involved, they create the foundation for the context in which combined resources will be utilized by the next step beyond management: relationship governance.

Those in innovation-based value exchanges should be managed differently from those in Transactional segments. The need for efficiency in Transactional exchanges demands routine, while the need for innovation in the Specialized and Unique exchanges requires joint exploration and decision. In this fast-paced environment, that distinction is often missed.

As the leaders of each party contribute to the combined, written articulation of their perspectives, they simultaneously acknowledge the unique cultures that make up the alliance and agree on relationship governance methods that will steer the disparate cultures onto a shared trajectory.

The governance pro forma should emphasize the relationship foundations: relationship intent, joint operational protocol to illustrate exemplary practices (shared assumptions), decision protocol to clarify boundaries, governance committee structure, communications protocol to ensure coherence (understanding of decisions, good flow of information), and a review process for periodic assessment of the alliance. Often organizations will focus on only one or two aspects of relationship governance (for example, committee structure), but all are needed to create a stable foundation.

Organizational relationships are becoming a more critical part of organizational success. New, innovative, and adaptive approaches are needed to manage relationships and encourage both their stated success and the potential for innovation. Equipped with the Relationship Portfolio and the understanding of relationship governance, leaders can turn the possibility of success into reality.

Managing the challenges of this world seems metaphorically similar to the mindset recently described by the eminent conductor Michael Tilson Thomas. His characterization of relationships between the participants in the process and his role as a leader of an often ambiguous situation is close to the situation that is being described herein.

Before beginning his career in conducting, Michael Tilson Thomas was an accomplished musician, playing solo music and chamber music. These experiences have had an influence on what he thinks about as a performer and as a conductor.

The role of the conductor is very similar to the role in which many leaders in IT find themselves: directing very talented people to apply their unique skills coherently toward a common goal.

"I think now of the orchestra as being my instrument. And, at the same time, I think about it very much in terms of the people who are really playing the music. It is clear to me that my colleagues are the ones who are really playing the notes. It is their performance, and my role as a director or coach is to try and, in the rehearsal period, create very clear priorities, guidelines, and a very secure framework within which they can then really feel free to take the kind of risks, emotionally and otherwise, that make a gripping performance.

"I really believe it is all about the trust in the relationships that are involved on the stage, and therefore that become developed between the people on the stage and people in the audience. Everyone has a role to play in this. San Francisco has been a wonderful experience because everyone—the musicians on the stage, the members of the staff, the members of the audience, the major patrons—all really are enjoying the experience of being in one another's company and discovering, or rediscovering, the music together. That's why it works. It's the relationship that works...the way in which it is done that makes it work. "

Creating that secure framework within which the alliance partners can bring their capabilities to bear to make a "gripping performance" is the goal of relationship governance. Forming the foundations upon which the members of the outsourcing alliance know the path, and the role they play to reach the desired goal of the relationship, is the key to reducing friction and realizing value.

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