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Department of Management

The Outsourcing Enterprise



Collaborating To Innovate:

Sourcing Developments in Business and IT Services

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In collaboration with Logica



Agenda

- 1 Trends in Global Sourcing
- 2 Collaboration and Innovation
- 3 Leading
- 4 Contracting
- 5 Organising
- 6 Behaving





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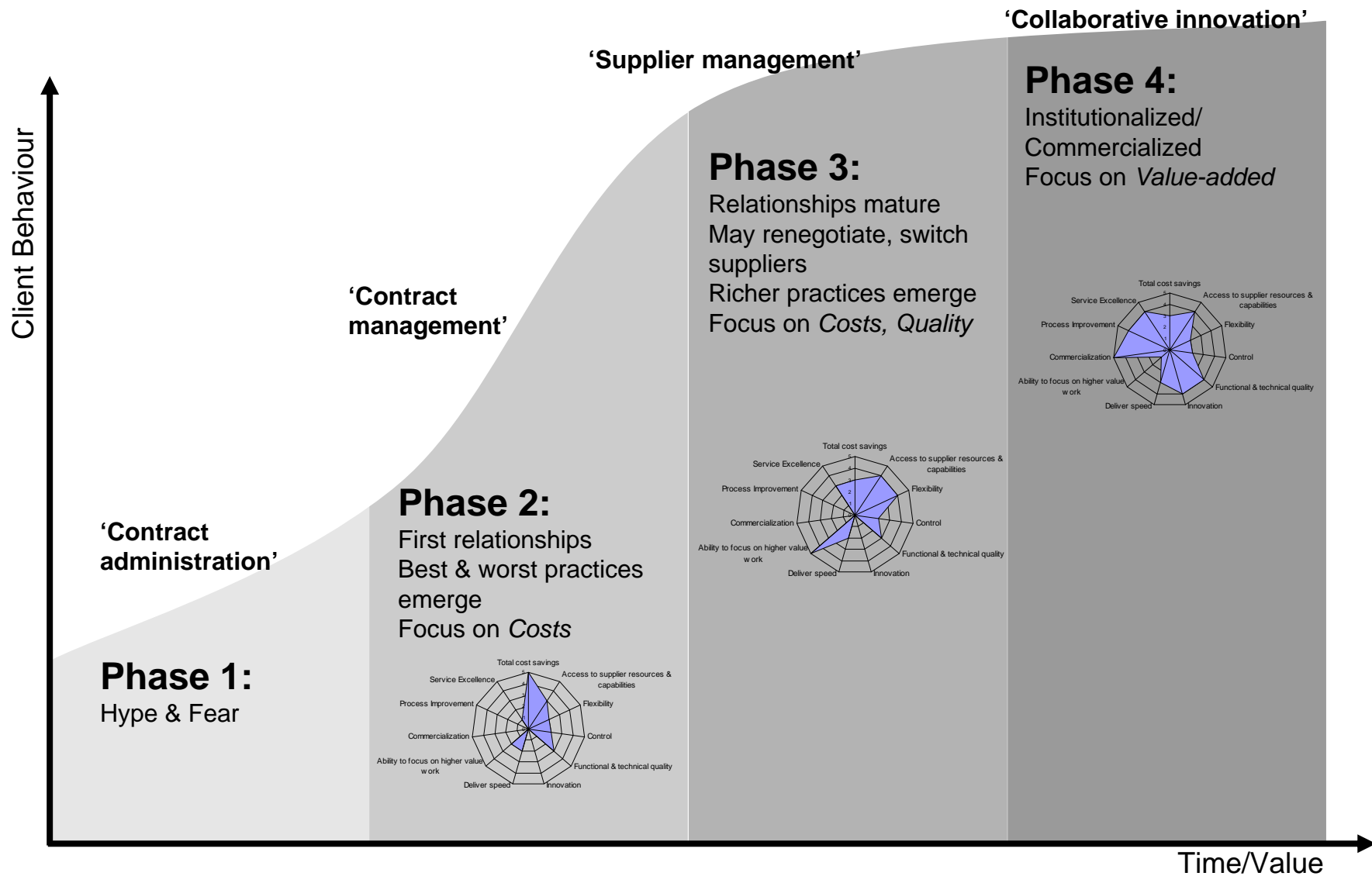
Trends In Global Sourcing

“The future is already here – it is just unevenly distributed”

– William Gibson



The Global Sourcing Learning Curve 1989-2009





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Collaboration and Innovation

“Collaboration only happens if there is a higher level goal for everyone. We put in the necessary incentives for them to put their best people on it and they can’t succeed without the help of the other suppliers.”

– VP of Innovation, KPN

“Innovation – the ability to wake up one morning and realise there is a different better way of doing something, and.. combining that with the ability to deliver”

– Senior Exec., Energy Company



Collaboration and The Role of Suppliers

Collaboration – a cooperative arrangement in which two or more parties work jointly in a common enterprise towards a shared goal.

Signalled by:

- Partnering behaviours developed over and for the long term
- High trust
- Flexibility
- Reciprocity
- Risk sharing investment of resources and time needed for high performance

Examples:

“A pro-active partner is aligned in thinking with you and comes up with new ideas and innovation. They think for me”

– BPO manager Insurance Company

“With collaboration comes leverage...as a supplier, you will be welcoming an advance from me, to .. find out how you did it, and to share it with me. Leadership is key in making progress in collaboration”

– Executive Suncorp





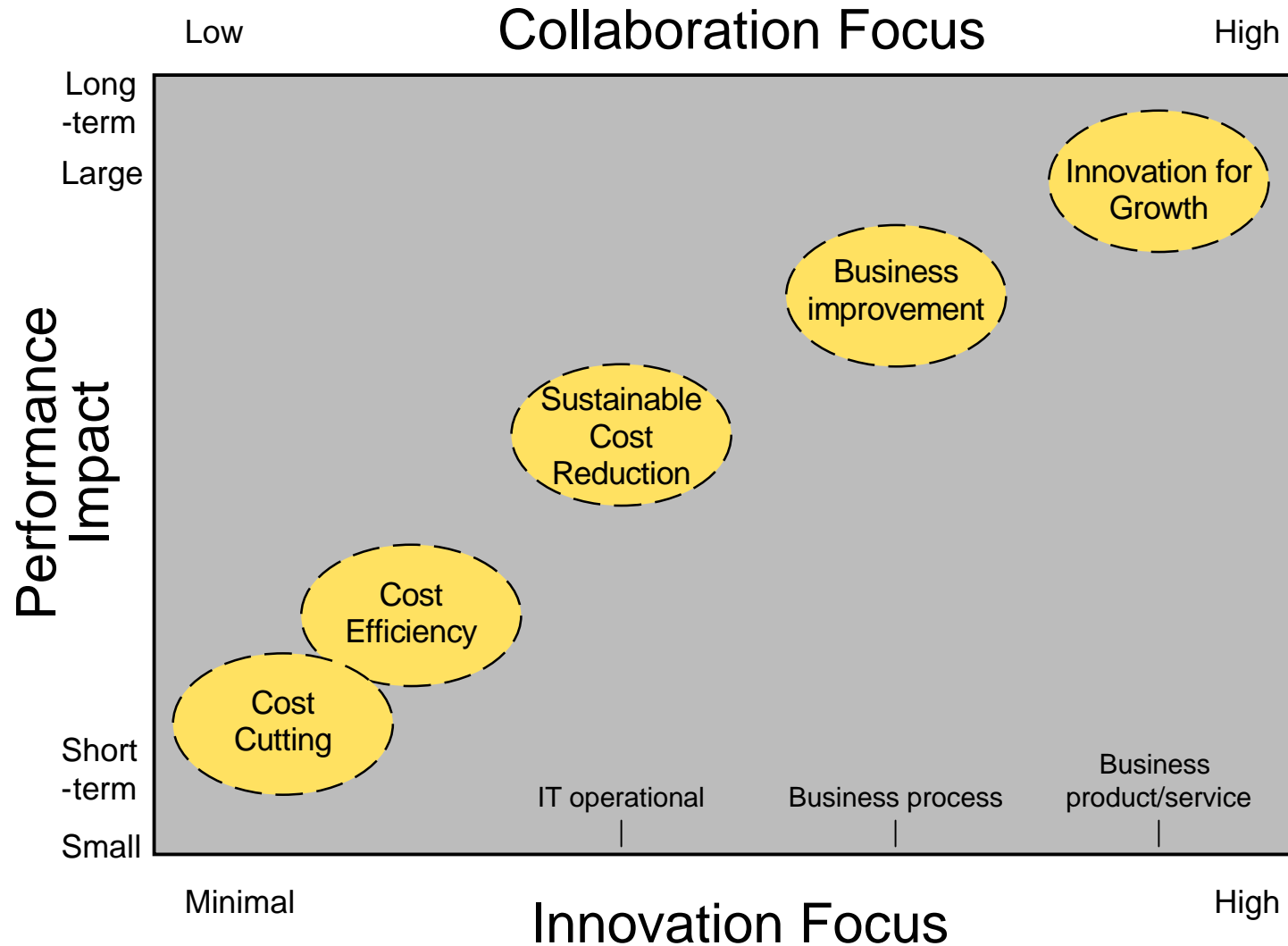
Types of Innovation

- **IT Operational** – technology and IT organizational, work and personnel changes that do not impact firm-specific processes
e.g: new email platform, IT staffing arrangements
- **Business Process** – changes the way the business operates in some important way
e.g: simplifying and technologising underwriting and claims processes in insurance
- **Business Product and Service** – enhances significantly the firm's product/service for existing customers or enables entry into new markets
e.g: Repco remote computerised car monitoring





Collaborate To Innovate To Perform





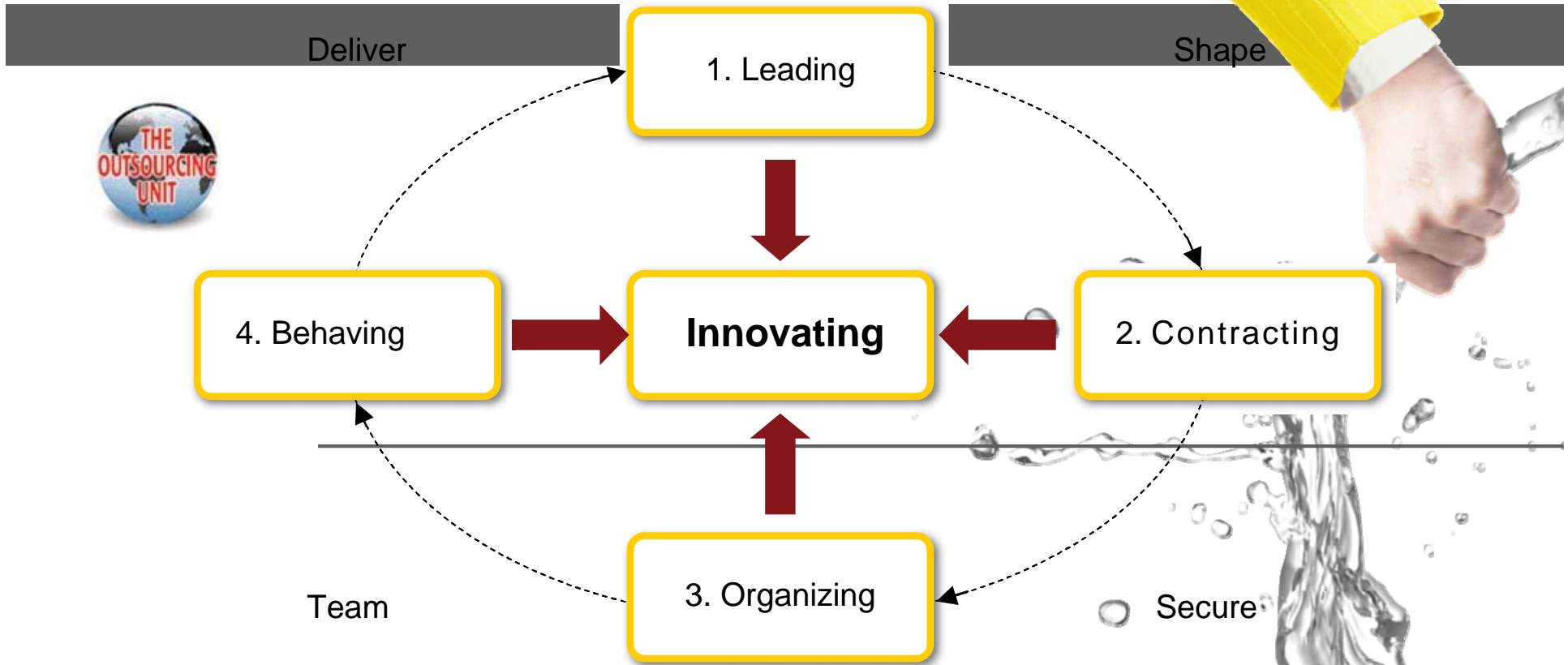
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Leading: Innovation's Open Secret

“You establish trust through delivery but when it goes wrong you have to show leadership. Taking responsibility is the beginning of leadership. If You keep telling people what to do they will never become leaders”

– VP of Innovation, KPN

Leadership shapes the context for collaboration, innovation and high performance.....



Source: Willcocks and Craig 2009

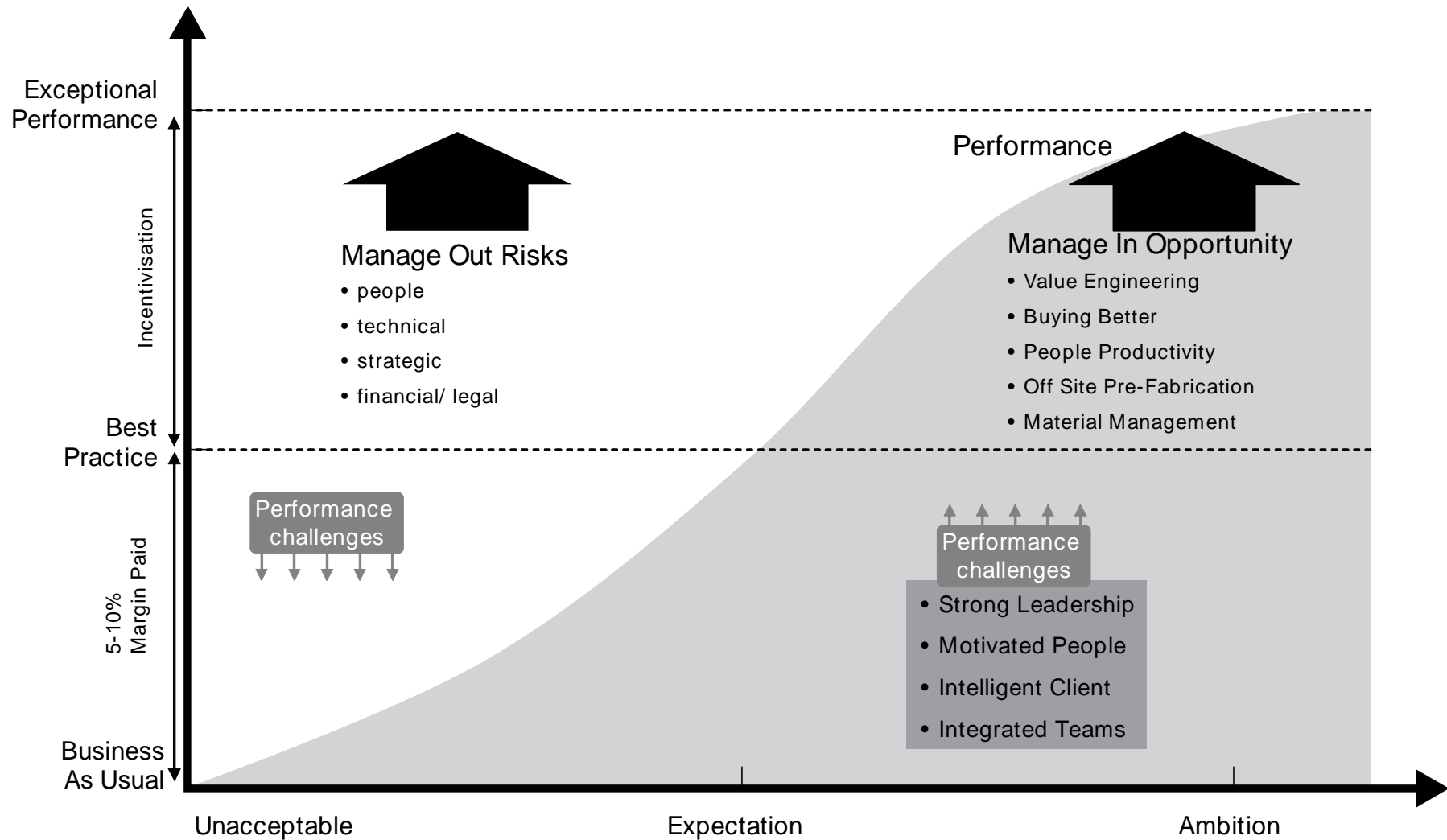


Leading: Technical versus Adaptive Work

| Challenge | Type of Work | Done By |
|-----------|--|-----------------------------|
| Technical | Apply current know-how techniques, processes | Specialists |
| Adaptive | Learn new ways | The people with the problem |



Example: Heathrow Terminal 5 Agreement Approach





Perspectives on Leadership

- “At different phases of the project , it was right for different people to lead it.”

– Han Wijns, VP for Innovation , KPN

- “We created a place where people could innovate and that’s the act of good leadership; making it safe for people to stick their necks out.”

– Andrew Wolstenholme, T5 construction director.

- “My job is to get into supplier organizations and make sure that my company has A higher percentage of their innovators’ and decision-makers time than the other companies.”

– Senior executive, Energy Company





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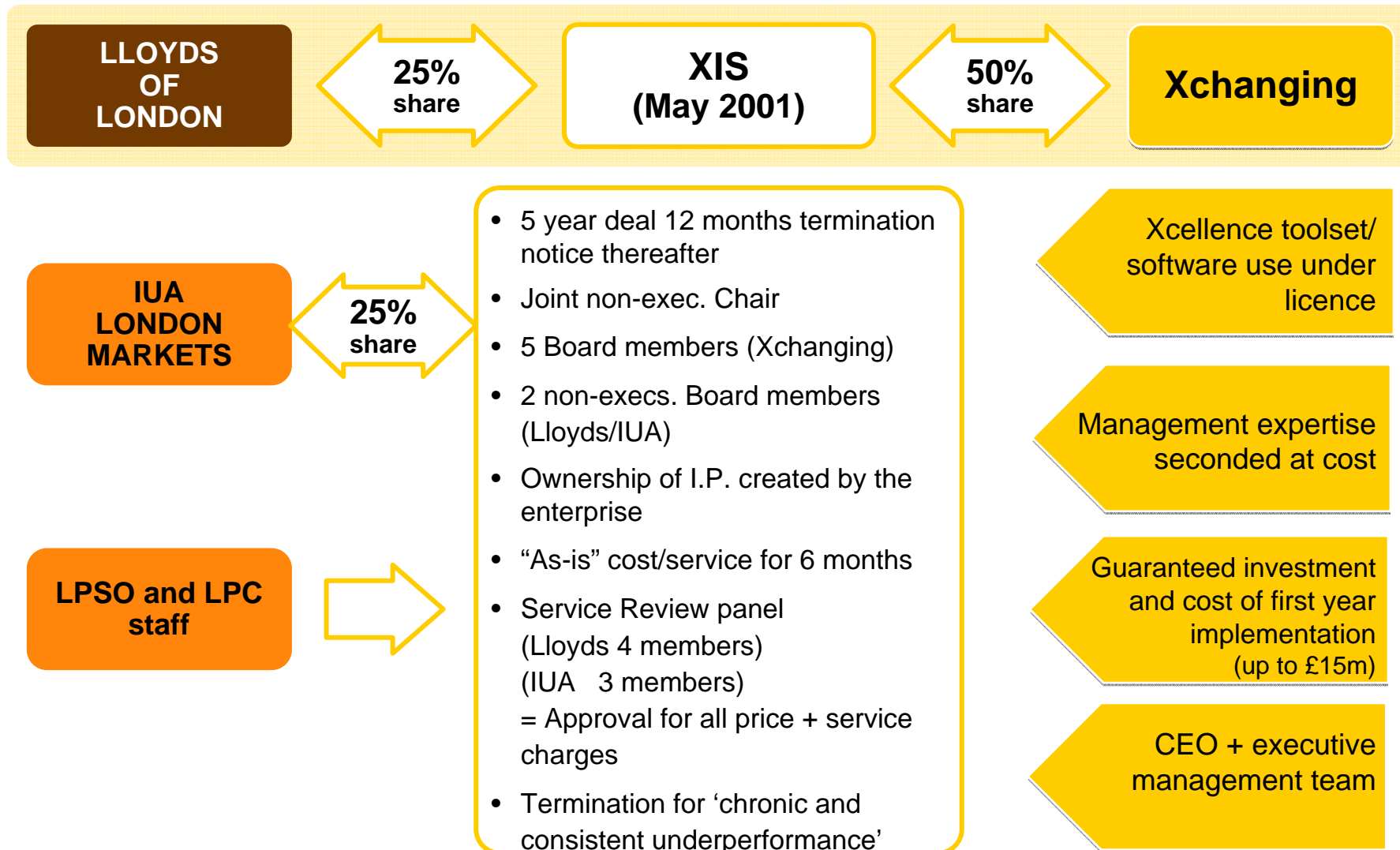
Contracting

“We did not simply rely on a contract that identifies culpability when something goes wrong, but a contract that encourages people to get it right before it goes wrong.”

– Adrian Wolstenholme, T5



Contracting Example: Collaborative Innovation





Heathrow T5 Contracting Assumptions

Usual Contracting (Fixed Price)

- Transfer of risk
- Price in advance
- Profit at risk
- Penalties
- Defined scope
- Employer's team
- Best practice
- Compliance/ remedies driven
- Silos

T5 Contracting (Partnering)

- Cannot transfer risk
- Remain flexible
- Integrated teams
- BAA holds the risk
- Active risk management
- Reimburse properly incurred
- Profit levels pre agreed
- Emerging pre-planned scope
- Single integrated team values
- Exceptional performance
- Goals/ Targets
- Success driven



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Organising

“We have multiple suppliers and it’s about the ability to team and work together for the outcome”

– Tom Lamming, Telstra Transformation Director

Organizing for innovation requires more co-managed governance structures and greater multi-functional teaming.....



Perspectives on Organising

- “We always thought that together we would be more cost effective as a whole... In Spring we always say it’s a team. It’s not a family. You have to work together, But you don’t have to sleep together”
– Wouter Hijzen, CFO Spring Global Mail
- “We get sufficient leverage and buy-in and understanding from all the senior executives in the supply chain to say – we are prepared to sign up to this. (They say) “This is about how we work together ..in integrated teams and it appears that you are going to take off our shoulders the traditional commercial risk we’d otherwise be carrying. In exchange we need to give you our very best people and we need to make sure their reputation is high”. This a very different commercial leverage”
– Adrian Wolstenholme, T5 construction director.
- “We put the designing teams from the several suppliers together in one building and in five months together they built the new IT solution. Designing, building and testing their own part are the responsibilities of each supplier. We have the integration function and architecture.... We have to co-create.”
– Hans Wijns, KPN





Technical, Adaptive and Innovative Work in Outsourcing

| ISSUE | APPROACH | | |
|---------------------------------|--|--|--|
| | Technical | Techno/ Adaptive | Adaptive/ Innovation |
| Problem Definition | Clear | Clear | Unclear; Requires learning |
| Solution and Implementation | Clear | Requires learning | Requires much all-party learning |
| Primary Responsibility | Specialists | Specialists and User; Participatory | User with specialists; Multi-functional teams |
| Type of Problem-solving | Technical | Technical-adaptive | Adaptive-innovative |
| Contract with External Services | Outsource | Time/ materials Resource-based | Shared Risk-reward Outcomes-based |
| Objective | Efficient use of existing technical know-how | Effective implementation of existing solution in new setting | Effective business solution |
| Primary Leadership | Specialist | Collaboration | Business Sponsor/ Champion |



Organising For Collaborative Innovation

The New Rules:

1. More co-managed governance structures and greater multi-functional teaming are required.
2. These must extend across the organisations and people responsible for delivering results.
3. Teaming requires the ability to collaborate within a client organisation, between client and supplier, and between suppliers in multi-vendor environments.





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Behaving

“You build trust by spending time together. You need to have capacity within the organizations to do that... you can't just outsource things and then think everything is going to go well – you have to invest in the relationship”

– Rune Aase, Statoil Hydro

Leading, contracting and organizing in these ways incents behaviour and enables collective delivery of superior business performance.



Types of Trust

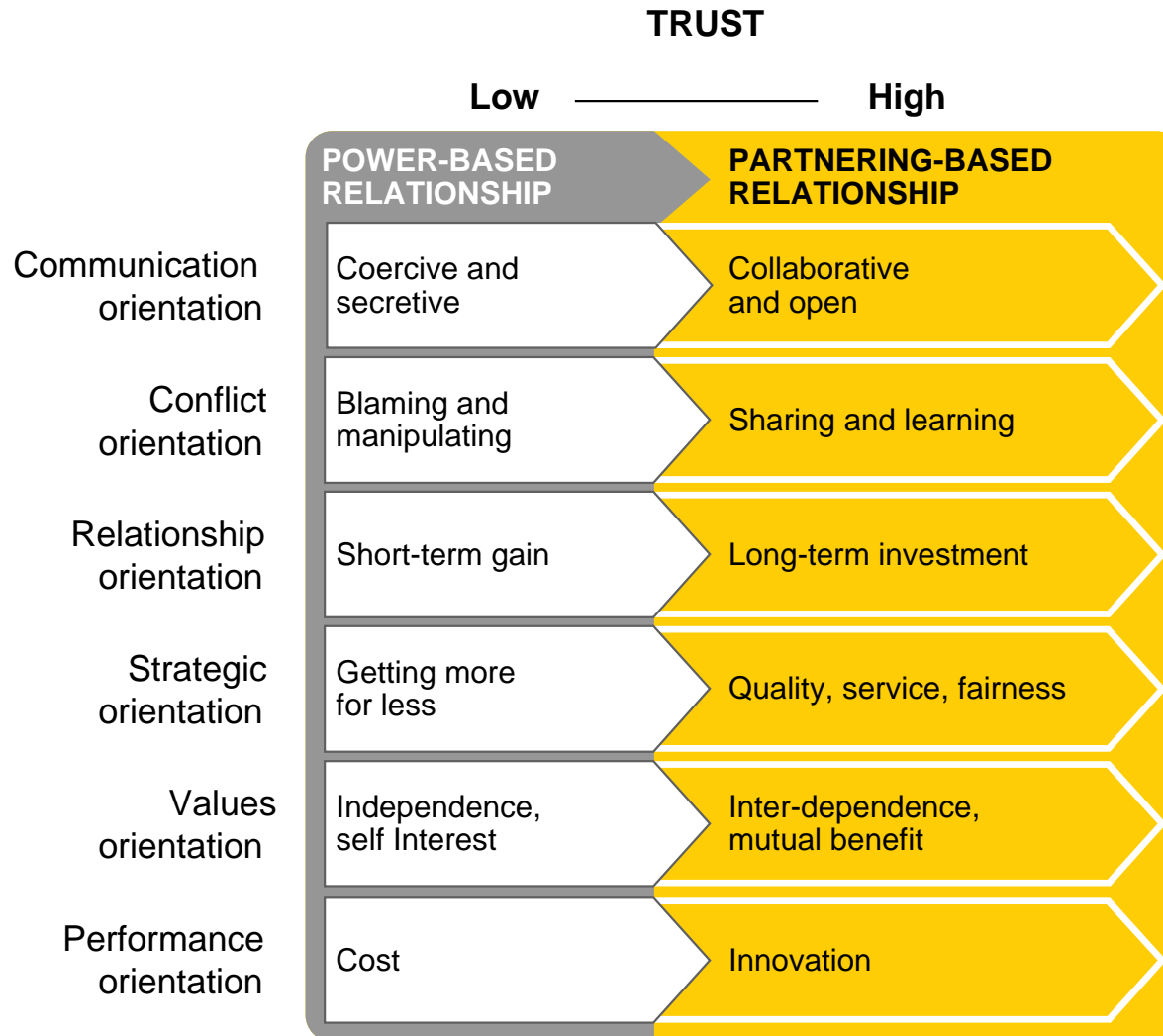
- **Trust** – confidence one has that another person will work for the good of the relationship based on integrity and adherence to moral norms.
e.g. acceptance of responsibility for failed risks
- **Competence-based Trust** – confidence that the other will deliver allocated tasks and responsibilities.
- **Motivational Trust** – both parties see the rewards and penalties geared towards the achievement of joint goals.



All three have to be present across all parties for effective collaborative innovation



Power and Partnering-Based Relationships





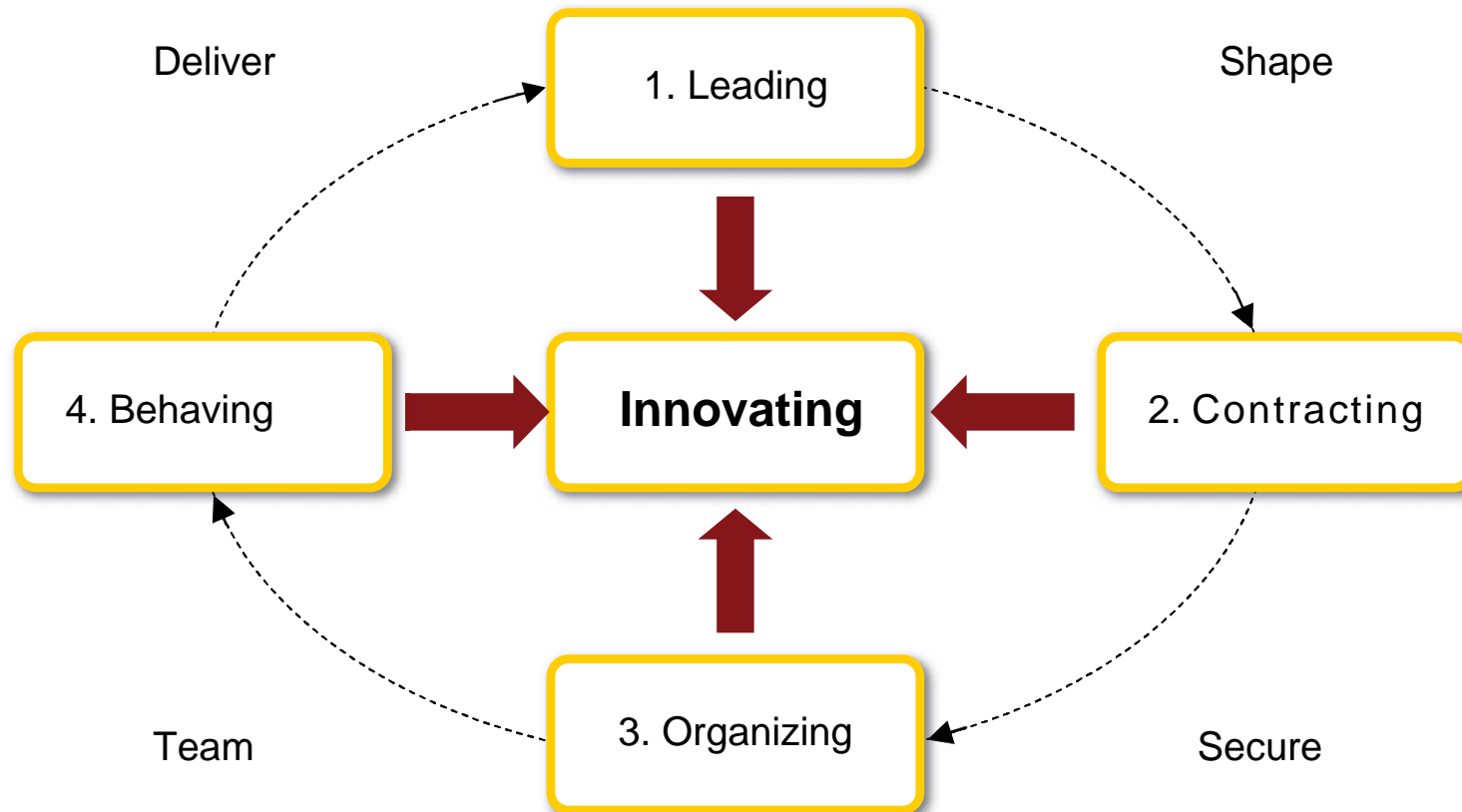
Perspectives on Behaving

- “Innovation comes from a supplier that surprises me! I always say to my people and suppliers: ‘surprise me’. I want them to be proactive. They do it before you ask them.”
– Rune Aase, StatoilHydro.
- “Behaviour and trust are fundamental. The right behaviours must be demonstrated from the top and right through the leadership spine of the company. Development is experiential – it’s about developing and embedding new behaviours in our own people and suppliers.”
– Senior Executive, Telecom company.
- “We want our suppliers to jointly create a ‘polar star’ for us.”
– Pascal Zammit, Michelin – describing co-management





Reprise: The Process of Collaborative Innovation



Source: Willcocks and Craig 2009

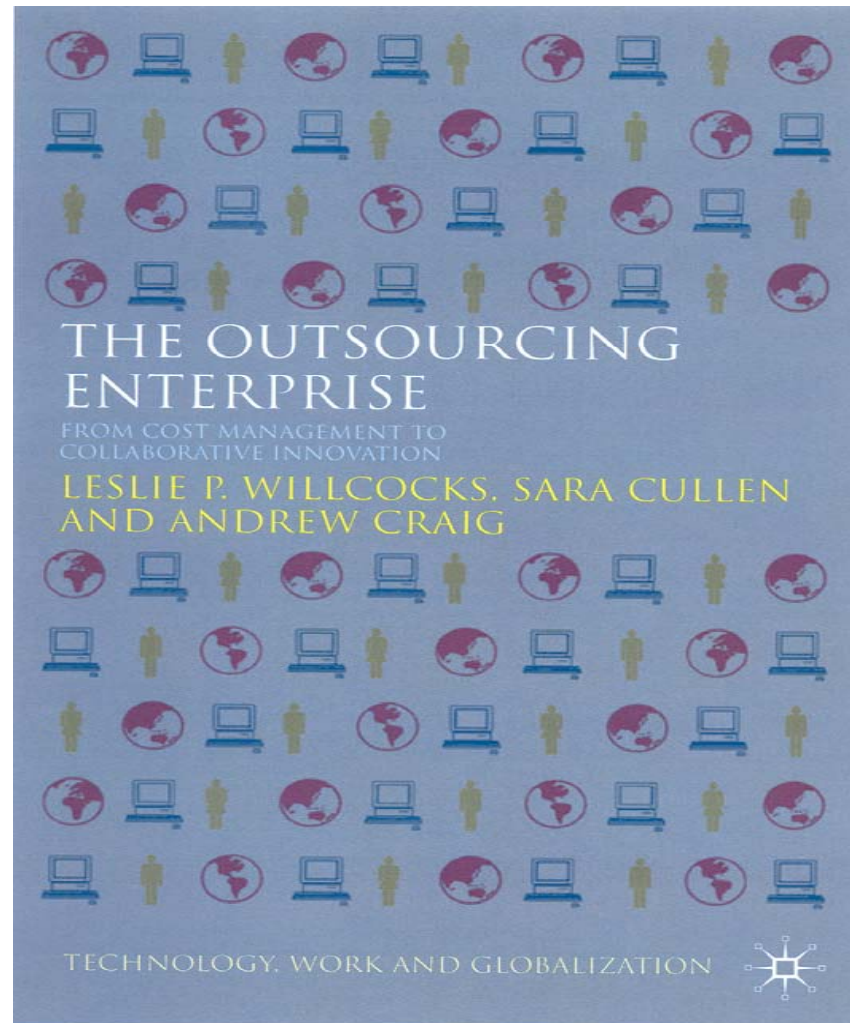


Summary Lessons

1. Innovation is even more important in economic recessions. A focus on cost-cutting alone, or even cost-efficiency solves short-term problems, at the expense of building the future business.
2. Innovation using the external services market is increasingly realistic as both clients and suppliers are maturing their ability to go beyond traditional outsourcing.
3. Innovation with large-scale, long term impact requires deep collaboration within clients, and with and across their external suppliers.
4. Collaborating to innovate requires a step-change in objectives pursued, relationships with suppliers, and how work and innovation is conducted..
5. Leadership shapes the context for collaboration, innovation and high performance and is primary.
6. New forms of contracting are required for collaborative innovation to succeed. Such contracts share risk and reward and incent innovation, collaboration and high performance to achieve common goals.
7. Organizing for innovation requires more co-managed governance structures and greater multi-functional teaming across those responsible for delivering results.
8. Behaving is incented by leading, contracting, and organising in these ways. High trust is a key component and shaper of the collaborative, open, learning, adaptive, flexible and interdependent behaviours required.



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