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New centre of power

Once seen as expendable, a new breed of middle managers is the key to successful outsourcing deals, say the LSE's **Professor Leslie Willcocks** and **Catherine Griffiths**.

Pity the UK's middle managers: no longer foot soldiers, but far from being the Generals in the map room drawing up battle plans alongside their captains of industry. Post-recession, and with the economy faltering again, middle managers are sometimes seen as corporate cannon fodder – the first to be sacrificed on the battlefield when the market turns hostile.

In the 1980s and 1990s, management gurus such as Tom Peters and Michael Hammer urged the removal of middle managers, believing that to be a vital corporate objective in the drive to cut costs, facilitated by more efficient ICT – and by increased outsourcing deals.

However, recent research by the London School of Economics (LSE) turns that orthodoxy on its head. It suggests that a new breed of middle management is central to successful organisations, and that middle managers are one of the key determining factors in making outsourcing deals work.

The conclusions draw (anonymously) on the LSE Outsourcing Unit's 16-year case database of over 1,200 global IT and business process engagements (including offshore), studied in-depth from 1993 to 2010 across every industry sector.

The traditional view of middle management is as an executive bulkhead

between boardroom and workforce, but that definition fails when it comes to outsourcing. Senior managers may set corporate strategy, but in complex, globalised business and IT environments, middle managers implement it, interpret it and modify it, as well as execute the key decisions.

Who is today's middle manager?

Middle managers are ambassadors between senior management and workers, and between the teams that make organisations work effectively with their external partners. Middle managers are the key resource for coordinating work, such as managing the flow of materials, activities, funds and ideas through an enterprise or project – and for managing risk.

These are the things upon which an outsourcing deal depends. If there is no-one on the ground to manage those relationships and make that collaboration work, then even the most pragmatic boardroom strategy is just a mission statement.

This is equally true for the supplier as well as the client. In service companies particularly, middle managers have a demanding role: they need to look externally to customers and suppliers, internally to senior management, and also to junior managers to whom they provide mentoring and training.

“If there is no-one on the ground to make relationships work, then boardroom strategy is just a mission statement.”

Photograph: Gary Eastwood

Professor Willcocks, LSE: Middle managers are the key to making outsourcing work.

Many organisations cling to the belief that outsourcing is a straightforward contract involving the transfer of services from customer to supplier, with savings and benefits that flow automatically as soon as the ink is dry. But it is not like that.

For outsourcing to work, relationships have to be established at every level both within and across client and supplier organisations. This is where the experience of a good middle manager is vital – while a poor manager can become a burden.

The LSE finds that clients often underestimate the amount of retained middle management ability needed to operate outsourcing arrangements effectively.

In outsourcing, the extent of middle managers' flexibility and leadership skills determine how well they are able to adapt projects to changing circumstances. Their ability to do this at the same time as building the relationship – and, for the supplier, managing the customer – drives the bottom line of any deal.

At one major oil company in the LSE's research, the CIO said: "When X was in place as a demand manager, nothing got done; when Y took his place, it all began to happen." In another major deal, both client and supplier contract managers fought adversarially over the deal for the first 18 months. Eventually, both were replaced by

people who were better able to build and sustain the 10-year outsourcing relationship.

Middle management is not an irrelevant layer of bureaucracy as far as outsourcing is concerned – quite the reverse: middle managers are where the relationship flourishes or falters, which means that hanging onto skilled people is essential. Despite this, some clients see outsourcing as an opportunity to sweep away those tiers of management – the very people on whom the deal's success depends.

With offshore deals, middle managers must acquire the skills to operate across organisational boundaries and countries, including places where there are distinct status or cultural differences. The building of 'virtual teams' across these boundaries, the development of trust, and the need for effective communication, are crucial.

The skills dimension

Given the importance of middle management skills and the difficulty of acquiring them – experientially over time – it is no surprise that such skills are in high demand and short supply worldwide, including within offshore providers.

Put another way, organisations that are engaged on either side of outsourcing deals should think twice before removing management tiers from the business to cut costs. Instead, they should focus on retaining and motivating people with the right level of people skills as well as business experience.

However, this is not just about key individuals; it also means focusing on what those resources need to 'add up to' as a team. On the buy side, clients should be interested in their own, and their supplier's, ability to turn their resources – facilities, technologies, tools and people – into capabilities that can then be transformed into higher-level competencies.

The research shows that high-performing IT functions in outsourcing clients are managed by a small residual team of highly capable, demand-led, strategy-focused people. The same applies to outsourced HR, finance and accounting, procurement, and administrative functions.

"I think our challenge now is probably more internal than external: how to get stakeholders to understand that this is the way we need to manage."

**IS leader,
mineral firm**



The essential middle-management competencies for IT outsourcing are:

- Governance, including leadership and coordination;
- Identifying and delivering on business requirements;
- Ensuring technical capability;
- Managing external supply.

Governance and coordination require leadership and informed buying capabilities. In terms of leadership, one IS leader in charge of a seven-year, \$900 million outsourcing deal for a multinational mineral company says: "What keeps me up at night? It changes! When we first outsourced, it was all external issues – negotiating, getting the price right, getting the service delivered. We got overtaken by that and missed things we needed to do internally.

"I think our challenge now is probably more internal than external: how to get all of our internal stakeholders lined up behind whatever we execute; get them to understand that this is the way we need to manage."

The Informed Buyer role

In any organisation that decides to outsource most of its IT services, the **Informed Buyer** middle-management role is the most prominent one after the CIO. Informed Buyers analyse and benchmark the external market for IT services; they select the five- to 10-year sourcing strategy to meet business needs and technology issues, and they lead the tendering, contracting and deal management processes. Informed Buyers also need an intimate knowledge of suppliers' strategies, financial strengths, and capabilities (or otherwise) in different sectors, services and regions.

One Informed Buyer describes the pragmatic nature of the role: "If you are a senior manager and you want something done, you come to me. I will go outside, select and draw up the contract with the outsourcer, and if anything goes wrong, it's my butt that gets kicked by you." (IT manager, energy company.)



According to the LSE's study, other types of middle manager role are important too. For example, business systems thinkers from the IT function are vital contributors to teams charged with business problem-solving, process re-engineering, strategic development and delivering e-business.

Contract monitoring is another key middle management skill, ensuring the development and maintenance of a robust contract as the basis for sound governance. This leads on to managers holding suppliers accountable against both existing service contracts, and against the developing performance standards for the services market.

“Vendor development is another key middle management skill, helping the vendor improve business benefits for the buyer.”

However, not all issues and expectations can be identified at the outset of a relationship, and so the contract will be subject to differing interpretations as issues arise. Any outsourcing deal has its own set of issues and dynamics: there is no such thing as ‘one size fits all’.

That said, the need for a **Contract Facilitator** role is rarely spotted straight away in most outsourcing deals. Instead, the role tends to emerge in response to such ongoing issues as:

- Users demanding too much from the supplier;
- Users asking for ‘one-stop’ shopping;
- Multiple supplier services need coordination;
- Easier monitoring of usage and services is required.

While all the organisations studied by the LSE recognise the importance of contract monitoring – and staffed the function accordingly at the beginning of the deal – they frequently put the wrong

Middle managers: Drilling for sourcing success.

people in place, especially in large deals, and underestimated the dynamic nature of the task.

Given the prohibitive cost of switching suppliers, it is in the client's interest to maximise suppliers' contribution to the relationship. Vendor development, then, is another key middle management skill, with the goal being to create situations where the supplier increases its revenues by providing services that improve business benefits for the buyer.

Making IT and processes work is imperative in successful outsourcing, where the middle manager operates in the overlap between architecture planning and design, and the delivery of services.

In these situations, the **Technical Fixer** role is needed to troubleshoot problems and identify how to address business needs that

cannot be fully satisfied by standard approaches. In outsourced environments, Technical Fixers also assess and challenge suppliers' claims and ensure that conflicts are resolved fairly and promptly.

Building relationships

Relationship building is an essential middle management discipline.

Relationship Builders develop users' understanding of IT and its potential for their lines of business. They help users and specialists work together, help to identify business requirements, ensure user ownership, and build user satisfaction with outsourced IT services.

The major shift observed by the LSE in many large organisations is towards fewer, but very high-quality, personnel in the retained team. In practice, recruiting and retaining this small, high-quality group is a major HR challenge for any organisation, and involves both internal 'upskilling' and external hiring.

Middle managers are fundamental in other key areas too, such as ensuring that an outsourcing supplier has the necessary competencies in delivery, transformation and relationships.

Delivery competency ensures the supplier provides cost-effective service performance against contract; transformation is needed where a supplier has agreed to deliver radically improved services, while relationship competency is crucial where a client expects the supplier to align itself with the customer's values and goals.

On the supply side

The LSE's research finds supply-side middle managers have clearly defined roles too, and therefore client-side middle managers need to be adept at evaluating the supplier's competence in these areas.

Essential supply-side middle manager roles include:

A **Middle-tier Leader**, identifying and delivering success within a deal.

- **Business Managers**, who deliver in line with service agreements and both the supplier's and client's business plans.

“Middle managers are essential in ensuring that a supplier has the necessary competencies in relationships, transformation and delivery.”

- **Domain Experts** retain and apply professional knowledge. When evaluating this capability in a supplier, look not just for technical know-how, but also for the much rarer ability to understand the business. Also look for back-office experience in your market – for example, in specialist Procurement or HR.

- **Behaviour Managers** motivate and inspire people to deliver high-level service, and are responsible for transferring staff to the supplier and recruiting and retaining new staff.

- **Sourcing Specialists** access resources – for example, technology, people and other suppliers – as needed. When evaluating this capability in your supplier, verify its sourcing specialists' claims for economies of scale, the availability of specialised skills, and the dynamic areas of quality and staff costs in locations offshore. Also evaluate the supplier's claims of superior infrastructure and procurement practices.

- **Programme Managers** deliver a series of interrelated projects for numerous clients, and so this role goes



The 16-year, anonymised study by the London School of Economics has concluded that skilled middle-management should be retained and incentivised to ensure that sourcing projects deliver desired results. (Image: Press Association.)

beyond their project-level capabilities within your deal. Can they keep all those plates spinning?

• **Governance Specialists** track and measure performance. Good governance makes a big difference in outsourcing arrangements, and so it is vital that the governance structures are both well designed and well staffed by appropriately skilled middle managers.

Process is progress

The managers responsible for process improvement are the people who design and incorporate improvements to client processes and procedures. The supplier's middle managers and their colleagues should have the capability to incorporate changes to the service process to meet improvement targets.

The **Technology Exploiter** role swiftly and effectively deploys new technology on the client's behalf. For example, one reason for the adoption of BPO is to make use of a supplier's IT capabilities, and to make an IT investment that clients are often reluctant (or unable) to make internally themselves.

The **Customer Developer** helps buyers make informed decisions. The LSE finds that clients who have been accustomed to using an internal service invariably need supplier support to make informed choices about service levels, functionality and costs when outsourcing.

One supplier leader told the LSE when taking over a contract: "I had 200 users who complained about everything. A critical task was to change their mindsets so that they became customers."

To fulfil this particular role, the Customer Developer needs to have personal contact with a large number of users to build a real understanding of how they want to use the service.

He or she also needs to work with client-side managers to agree a detailed definition and understanding of the service, while at the same time creating a business relationship in which users feel informed and empowered.

• Addressing Middle Manager Gaps in Non-BRIC Countries

The Philippines offers complex BPO services but has insufficient numbers of talented, experienced middle managers, says the LSE's research. Egypt, which has a similar gap – and political upheavals, of course – has been working with India and other countries to obtain benefits from targeted secondments. Senior personnel are appointed for fixed terms, to provide both a role model and the necessary internal training. This is part of a wide-scale strategy to fill both an immediate and longer-term shortfall.

Other non-BRIC countries face similar problems. Almost all of the countries analysed by the LSE – such as Belarus, Bulgaria, Costa Rica, the Czech Republic, Mexico, Morocco, Poland, Romania, Slovakia, Tunisia, Venezuela, and Vietnam – were trying to address the middle management gap. Each is promoting itself in the offshoring market on the basis of cost, enhanced by favourable exchange rates and skills.

In terms of those relationships, good planning and contracting should deliver wins for both parties, so clients need to ask: "Does our supplier share our vision of the potential prize for both parties – and have a coherent process for achieving it?"

Organising the relationship

Organisational design is another factor in relationship building between customers and suppliers, as it creates and implements successful organisational arrangements.

In practice, suppliers' flexibility in this area varies greatly. Some emphasise a thin front-end client team, interfacing with consolidated service units. However, this could constrain the ability to customise services and deliver to a specific client business plan.

Clients should consider the degree of flexibility they need, and involve their own middle management in that process. Middle managers at the supplier can be vital repositories of knowledge and experience about which designs will work, and in what circumstances.

Equally, lack of middle management skills in offshore providers is a challenge. The LSE's research finds that offshoring may only be effective if the offshore production facility has two layers of

"I had 200 users who complained all the time. A critical task was to change their mindset so they became customers."

Supplier leader

personnel: a set of workers specialised in production, and a set of middle managers in charge of supervision. In this arrangement, middle managers within the supplier shield the client's top management from having to deal with routine problems. Also, the middle management layer enables knowledge to be transmitted across countries more efficiently.

Offshore can mean problems

However, the speed at which many BRIC and non-BRIC countries are developing their outsourcing industries has often meant that the necessary supplier competencies, roles and structures are not in place. As a result, many offshore suppliers quickly reach a growth plateau, as they do not have the middle managers necessary to hold the company together, ensure smooth operation and build a corporate knowledge repository.

This lack of middle management expertise in offshore suppliers has been a problem since the late 1990s, but it has been exacerbated recently by rapid growth and by more sophisticated work being outsourced to India. This lack, together with middle managers' low retention rates are causes of concern because there are relatively few experienced personnel from whom new employees can learn.

For example, in September 2009, India's Commission on Information and Communications Technology expressed its concern about the dearth of skilled workers necessary to sustain growth, in particular pointing to a lack of good mid-level managers in outsourcing. As a consequence, Indian universities began upgrading their curriculum to address rising demand for middle managers.

Middle-manager roles in outsourcing may seem diverse, but one thing is clear from the LSE's research: Middle managers – in both clients and suppliers – are the key to converting strategic direction and executive decisions into 'job done'. But to reach that point, there

“Lack of middle managers in many offshore destinations has become a problem that governments are addressing.”



are four essential focuses for middle managers in both clients and suppliers:

The **Coordinator** provides the 'glue' that holds a company together. Both outsourcing clients and suppliers need lynchpin roles that hold the relationship together and manage the logistics.

The **Knowledge Repository** focus creates a corporate memory. Without this, there is a danger of 'reinventing the wheel' with every new project or engagement, wasting money and time.

A **Social Capitalist** focus creates vital social capital through relationship management, as well as through team and project leadership.

A **Change Agent** focus is also important to both suppliers and clients. In dynamic environments with frequently changing demands, middle managers can become adaptive change agents in search of business results.

Recognise the need

Middle managers, then, are crucial for the fundamental management task of delivering and surviving in the short term, while also looking after the long-term health of the deal – and all parties in it.

There are two factors to consider when deciding how the four middle management focuses described above will be performed, and by whom. First, organisations must recognise the need for each focus, and ensure that there is an appropriate balance between them. Second, there is the dimension of time: the present and future – otherwise known as the operational and the strategic. Both client and supplier must pay each of them sufficient attention.

Far from being a management tier that can simply be stripped out of the business to cut costs, middle management is vital to ensure that outsourcing works, and that deals are more than just business plans coupled to an expectation of seamless delivery. As many organisations have found, without the right people in the centre of the business, deals can rapidly unravel and fail to deliver benefits. ■