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A top-down photograph of a diverse group of people sitting in a circle on a white floor. The people are of various ethnicities and ages, and are dressed in casual clothing. One man in the center-right is looking directly at the camera.

Look to be smart in your
ignorance

THE OUTSOURCING ENTERPRISE
BUILDING CORE RETAINED CAPABILITIES

Leslie P. Willcocks, Andrew S. Craig

Through analysis of our research bases, which represent 15 years of combined research into over 1200 organisations, we see ten key lessons emerge for sourcing business and IT services externally:

TEN LESSONS FROM THE OUTSOURCING ENTERPRISE

- 1 Getting innovation and added business value from outsourcing requires proactive business leadership, alignment of business and sourcing strategies, and organised, in-house core capabilities to be applied to the task.
- 2 Nine retained capabilities are required to provide leadership, governance and control, elicit and deliver on business requirements, retain control over technical direction and manage external supply. Under resource these capabilities at your peril.
- 3 Organisations need to develop long term strategic focus by applying all nine capabilities rather than being drawn into firefighting and focusing only on the shorter term capabilities in the core capabilities framework.
- 4 High performers with distinctive skills, capabilities and orientations need to be developed or appointed. This should be embedded in Human Resource policies. These performers need to be welded into a high performance team.
- 5 Where implemented, core IS capabilities can experience high levels of success. But a range of factors inhibit performance: weak governance mechanisms, inflexible outsourcing contracts and deals, under resourced organisations, insufficient supplier capabilities and sluggish supplier responsiveness to new demands.
- 6 Programme management and security are increasingly regarded as core retained IS capabilities.
- 7 In modern outsourcing, adaptive challenges far outweigh technical ones. Thus leadership – the ability to shape the context for and mobilise adaptive work - becomes critical.
- 8 Selecting and leveraging the right supplier is made possible by developing leadership capability for outsourcing. The leadership payoff is control, flexibility, governance, leveraging the relationship and innovation.
- 9 Look to be smart in your ignorance. Evolve capabilities and outsourcing incrementally at a pace of change and learning you can absorb. This means diagnosing where you are, and passing through up to three stages: Delivery, Reorientation and Reorganisation.
- 10 Manage beyond the quick fix. Having diagnosed your position, prioritise the development of retained core capabilities, use the external services market selectively and develop and apply creative and flexible business and IT leadership.

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Introduction

One fundamental client question has guided this Outsourcing Enterprise series. How do you leverage the growing, increasingly globalising, ITO/BPO services markets to achieve business advantage?

The information technology outsourcing (ITO) market continues to grow at seven per cent to ten per cent per annum. The global ITO and business process outsourcing (BPO) markets are projected to grow in excess of \$US 650 billion by 2011. By then a majority of the average corporation's IT budget will be spent on outsourcing providers⁰¹. IT outsourcing offers opportunities to acquire new capabilities from outside the organisation. Besides reducing the cost and improving the service levels of IT, these capabilities can be used to provide access to new skills, improve capital management and, indeed, offer a range of other, often strategic, benefits⁰².

But how do you get the results you want? Our first paper⁰³ established how CEOs and senior business executives must be proactive in shaping, staffing and monitoring sourcing strategy and its implementation in line with short-term business needs and long term business direction. Our second paper³ focused on how the power of relationships can be released. The third paper⁰³ in the series detailed how to select effective suppliers.

Outsourcing is riddled with risks. This paper deals with the most critical, all too often neglected, risk mitigating practice; namely, retaining key internal capabilities that underpin the business's future capacity to exploit IT. We find that few organisations, even those that have outsourced for several years, have in place such capabilities. As consequent problems mount, organisations then have to play 'catch-up', often on a large-scale. As one practitioner put it:

"The problem is putting the genie back into the bottle. It's really, really hard work."

IT executive, international bank

Five years into a contract, another business manager reflected on the source of the mixed outcomes they were getting:

"It was all owned by and driven through the outsourcer – almost a black magic relationship. They were seen as the experts and holders of the knowledge. And the interesting thing is they were seen as the only people that had the knowledge as well."

In this paper we focus the necessary learning through the lens of the core retained capabilities needed to keep control of your IT destiny. We show how these capabilities provide governance, control, risk mitigation and flexibility in outsourcing arrangements and form the basis for maturing an organisation's ability to lead in outsourcing.

01 Willcocks, L. and Lacity, M. (2006) *Global Sourcing of Business and IT Services* Palgrave, London. Also Lacity, M., Willcocks, L., and Cullen, S. (2008) *Global IT Outsourcing: Search For Twenty First Century Advantage*. Wiley, Chichester. On our estimates, by 2012 about 58% of the average corporation's IT budget will be with outsourcing suppliers.

02 Cullen, S. Seddon, P. and Willcocks, L. (2007) *ITO Success: A Multi-dimensional, Contextual Perspective on Outsourcing Outcomes*. LSE Working paper, London, July. Here we identified 25 possible goals organisations pursue with outsourcing; typically they choose between three and seven major goals.

03 See *The Outsourcing Enterprise* series (<http://www.logica.com/page/index.aspx?pagelid=400009149&title=the+outsourcing+enterprise>)

Core retained capabilities for IT and back office functions

In 15 years of research we have found organisations wrestling with a key challenge: where should we draw the line between what can be outsourced and what needs to be retained⁰⁴? Looking at just IT, strong, informed decisions are frequently made about activities and assets:

“We have our infrastructure, mainframe, midrange servers, all that sort of stuff is outsourced, likewise our bulk printing and mailing. We don’t outsource strategy, we don’t outsource architecture, we don’t outsource service management or security. All of that is retained in-house, with full time resource; the other commoditised type IT services are outsourced.”

- BHP Billiton, resources and manufacturing company, 2007

“Service management, strategy, architecture, finance, security, they were all what we saw as our key capabilities within IT.”

- AXA, insurance company, 2007

But the really difficult decision is what needs to be retained and developed in the areas of leadership, management and staffing. And, as will emerge, getting this wrong can have highly damaging consequences for any outsourcing arrangement. Where then should the line be drawn? Our own work finds that high performing back offices are managed by residual teams of highly capable, demand led and strategy focused people. Here we provide a framework for describing and discussing the substance of such a team and what happens when it is, and if it is not, in place.

DEFINING CAPABILITIES

The framework in Figure 1 (page 4) identifies nine core retained capabilities required for high performing back office functions, along with associated skills and inter-relationships. We define a capability as a distinctive set of human based skills, orientations, attitudes, motivations and behaviours that, when applied, can transform resources into specific business activities. Collections of capabilities, in turn, create high level strategic competencies that positively influence business performance⁰⁵. We found the skills supporting a capability to be in each case a distinctive mix of interpersonal, technical and business skills. We will focus specifically on the IT function. Here, distinctive ‘core IS capabilities’ are needed to manage the demand side of, and exploit, information and communications technologies (IT). These capabilities are measurable in terms of IT activities supported, and resulting business performance. Throughout, the word ‘role’ refers to a person formally enacting a capability. For example, in the role of CIO a person enacts the leadership capability. The procurement manager role personifies the informed buying capability.

04 The research is detailed in Lacity, M. and Willcocks, L. (2008) *Global IT Outsourcing: Search for 21st Century Advantage* (Wiley, Chichester), and Willcocks and Lacity (2006) *Global Sourcing of Business and IT Services*. (Palgrave, London)

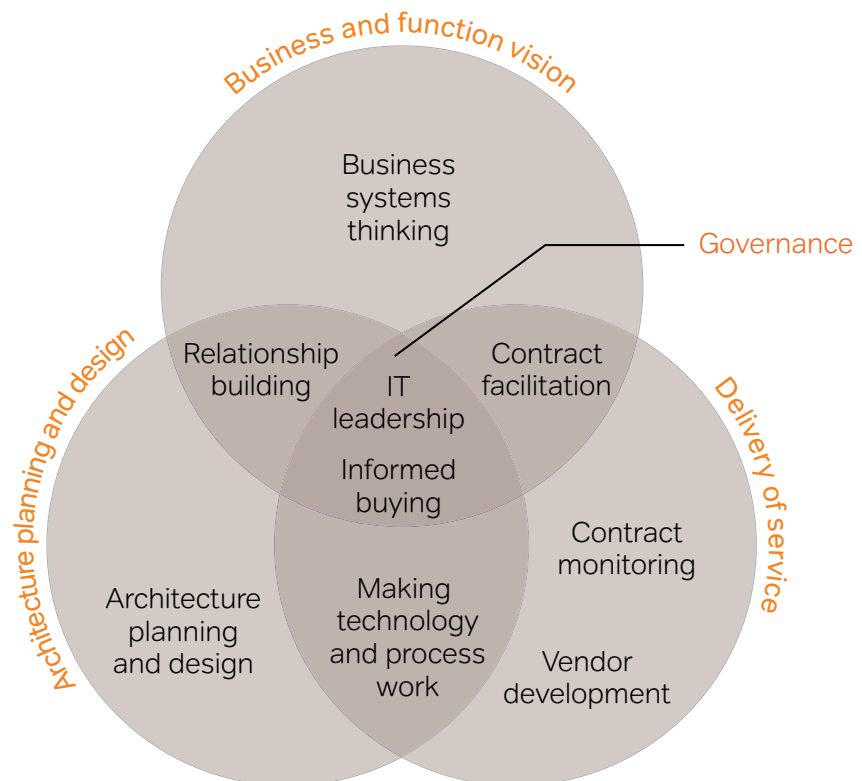
05 The importance of such capabilities is established in the resource-based view of the firm (RBV), which argues that firm performance depends on the organisation’s ability to acquire, deploy and maintain a set of advantageous ‘resources’ (or ‘assets’). Extending RBV, the capability-based perspective, popularised through Prahalad & Hamel’s landmark HBR article on core competencies, focuses on intangible resources, suggesting that a firm is a learning organisation that builds and deploys assets, capabilities and skills in order to achieve strategic goals. David Feeny and Leslie Willcocks in their 1998 Sloan Management Review article coined the phrase ‘core IS capabilities’ referring to the human rather than IT assets that characterise the management and staffing of a high performance IT function.

FOUR TASKS OF THE IT FUNCTION

Our research demonstrates that the modern high performing IT function has four fundamental tasks, each of which has both strategic and operational dimensions:

- Governance - including leadership and coordination. This involves dynamically aligning the IT function's activities internally and with those of the organisation as a whole.
- Business and function vision - eliciting and delivering on business requirements. A demand driven task concerned with defining the systems, information and processes to be provided and leveraging them for the business.
- Architecture planning and design - ensuring technical capability. A supply focused task primarily engaged with defining the blueprint or architecture for the evolving technical platform that supports the target systems and processes, and dealing with risks inherent in non-routine technical issues.
- Delivery of service - managing external supply. This entails arriving at and managing sourcing strategy. It requires an understanding of the external services market and the ability to select, engage and manage internal and external IT resources and services.

Figure 1: Nine core capabilities framework for high performing IT and back-office functions



Source: Willcocks and Lacity (2006) Global Sourcing of Business and IT Services (Palgrave)

NINE CAPABILITIES

These four tasks are delivered through nine capabilities (see Figure 1) that populate seven spaces. Three spaces are essentially business, technology or service facing. Two core capabilities - leadership and informed buying - occupy the fourth lynchpin governance position. The capabilities that populate the final three spaces represent interfaces crucial to facilitating the integration of effort across the four fundamental tasks. An overview of the nine core capabilities is shown in Table 1.

Table 1: Nine core IS capabilities

Capability	Primary agenda
1. IT leadership	Integrate the IT effort with business purpose and activity
2. Business systems thinking	Ensure that IT capabilities are envisioned in every business process
3. Relationship building	Get the business constructively engaged in operational IT issues and the potential that IT offers
4. Architecture planning and design	Create the coherent blueprint for a technical platform that responds to present and future business needs
5. Making technology and process work	Rapidly troubleshoot problems being disowned by others across the technical supply chain
6. Informed buying	Manage the IT sourcing strategy to meet the interests of the business
7. Contract facilitation	Ensure the success of existing contracts for external IT services
8. Contract monitoring	Protect the business's current and future contractual position
9. Vendor development	Identify the potential added value from IT service suppliers

CAPABILITY 1: IT LEADERSHIP

The central task here is to devise and engage in organisational arrangements – governance, structures, processes and staffing. The aim is to successfully manage internal and business interdependencies in ways that ensure that the IT function delivers business value for money.

Leaders also influence the overall business perception of IT's role and contribution, and establish strong relationships at senior business executive level in order to achieve a shared vision of IT. They determine the values and culture of the IT function and instil the belief that IT staff's primary duty is to contribute to the business.

A senior IT executive at BHP Billiton gives insight seven years into an outsourcing arrangement with CSC:

“What keeps me up at night? I think our challenge now is probably more internal than external. And that is 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. What does governance success look like? How do you measure governance success? What is the right way of measuring the goodness of any of these deals? And what is the right kind of framework to pull this together?”

CAPABILITY 2: BUSINESS SYSTEMS THINKING

In the leading organisations that we have studied, business systems thinkers from the IT function are important contributors to teams charged with business problem solving, process re-engineering, strategic development and delivering e-business. Such organisations recognise that business processes should be redesigned in the light of technology potential. The business systems thinker applies a holistic perspective to the optimal integration of strategy, process, technology, systems and people.

A European insurance company we studied lacked such staffing and vision. It contracted a supplier to provide a strategic IT system intended to transform the administrative and customer service processes. However, the business transformation was conceived as an IT project and the supplier was given primary responsibility and aggressive deadlines. In the event, the supplier failed to deliver detailed business requirements on time. The project was cancelled nine months into the two year implementation⁰⁶.

CAPABILITY 3: RELATIONSHIP BUILDING

Role holders with this capability facilitate the wider dialogue, establishing understanding, trust and cooperation amongst business users and IT specialists. Relationship builders develop users' understanding of IT and its potential for their lines of business. They enable users and specialists to work together, help to identify business requirements, ensure user ownership, and user satisfaction with IT services. To achieve these objectives they need a distinctive blend of solid technical proficiency and effective relationship skills.

When it works, even one individual can make a difference. As one retailer business unit head put it:

“Things are quite different now; we feel our contact point with IT is really one of us.”

A case in contrast is DuPont. Four years into a major outsourcing deal with Accenture and CSC, we found several regional business units losing touch with understaffed local IT functions. IT leaders were responsible for multiple roles such as leadership, relationship building and contract facilitation. However things took a turn for the better when the mounting problems led to better staffing and a stronger focus on career development.

CAPABILITY 4: ARCHITECTURAL PLANNING AND DESIGN

Architectural planners shape the IT architecture and infrastructure through developing the vision of an appropriate technical platform, and through formulating associated policies that ensure integration and flexibility in IT services. The architect's principal challenge is to anticipate technology trends so that the organisation is consistently able to operate from an effective and efficient IT platform. This has to be achieved through insight into technology, suppliers and business directions and, in all likelihood, without big investments into major migration efforts.

⁰⁶ Described in detail in Willcocks, L., Petherbridge, P. and Olson, N. (2003) Making IT Count: Strategy, Delivery and Infrastructure. (Butterworth, Oxford)

Any outsourcing arrangement provides a strong test of the value of retaining this capability. We saw a bank and a manufacturer give away their architects, assuming that the task of architecture planning was technical and therefore one for the suppliers. Three years into outsourcing found both of them rebuilding this capability, because they could not understand, let alone talk with and influence, the suppliers about how to address existing and fresh demand through a new technology platform with better economics.

About organising new contracts in 2007, a senior IT executive in a governmental tax agency said,

“We need internal knowledge to make decisions about where we are going rather than having to rely on the provider to say – this new technology has come up, how are we going to deal with it?”

The CIO of a major UK public sector organisation confirmed,

“They are going to take your architecture where their business is going, not where you need to go... It's dangerous to let all your architects go, and I am skilling up my group to build an expertise that can keep up.”



CAPABILITY 5: MAKING TECHNOLOGY AND PROCESS WORK

Operating in the overlap between the challenges of IT architecture design and delivery of IT services is the core capability of making technology and process work. Technology ‘fixers’ are needed to troubleshoot problems and identify how to address business needs which cannot be properly satisfied by standard technical approaches. They understand the idiosyncrasies of the inherited infrastructure and business applications, and this enables them to make rapid technical progress – by one means or another.

In outsourced environments technology fixers also assess and challenge third party suppliers’ claims about technical problems and proposed solutions. The capability requires a broad and deep understanding of technology fundamentals, and the insight of an architecture planner, together with a pragmatic and short-term orientation to problem resolution.

The need to retain high quality technical ‘doing’ capability was widely recognised amongst the organisations we studied. The lead IT executive in a public sector agency in charge of a five year deal pointed out,

“We can’t retain too much skill because we will be paying twice for it. But we are retaining a modicum in the systems analysis and requirements definition area, and, for example, for rapid application development, prototyping and hybrid skills.”

The IT director at Lloyds of London commented,

“I have a network team, I would get no value by outsourcing them, they have an intimate knowledge of our network at Lloyds. They installed IP technology, a relatively new technology then, and I do not want to put that at risk.”

Commonwealth Bank Australia (CBA) was more typical in underestimating the need. Faced with a major business transformation eight years into a \$US 3.4 billion ten year single source outsourcing arrangement with EDS, it began rebuilding its IS development capability. Fortunately, one recently acquired business unit had retained resource, enabling the bank to successfully deliver a cross-organisational CRM implementation between 2003 and 2005⁰⁷.

07 See Reynolds, P. and Willcocks, L. (2008) Building and Integrating Core IS Capabilities In Alignment With The Business: Lessons from the Commonwealth Bank 1997-2007. Information Systems Frontiers, (forthcoming).

CAPABILITY 6: INFORMED BUYING

In an organisation that has decided to outsource most of its IT services, this role is the most prominent after the CIO. Informed buyers regularly analyse and benchmark the external market for IT services; select a five-to-ten year sourcing strategy to meet business needs and technology issues; and lead the tendering, contracting, and service management processes.

Informed buying also requires an intimate knowledge of suppliers – their strategies, financial strength and their capabilities and incapacities in different sectors, services and regions.

One informed buyer, the IT manager of an energy company, described the pragmatic aspect of the role:

“If you are a senior manager... and you want something done, you come to me and 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.”

The \$US 1.2 billion global deal that ABN AMRO bank signed in late 2005 with five suppliers, three of them India-based, helps to illustrate the challenges that informed buying is likely to face in the future. To be frank, we rarely come across a client that invests nearly enough in this capability. But the signs are clear: as organisations outsource increasingly more of their IT budget, and on a multi-sourcing basis, they will need to invest much more in this capability - the need, indeed, for ‘informed buying on steroids⁰⁸’.

CAPABILITY 7: CONTRACT FACILITATION

The contract facilitator lubricates the relationship between suppliers and business users. Not least by ensuring that problems and conflicts are resolved fairly and promptly within what are usually long term relationships. It is an action-orientated capability. If service agreements, suppliers and user behaviour were perfect, contract facilitation would not be a core IS capability. The reality is that IT service delivery is invariably complex and messy. As one CIO put it to us:

“The users have been bitten a few times when they have dealt directly with suppliers, and it's a service we can provide, so we do.”

Interestingly, the need for this role is rarely spotted straight away in an outsourcing arrangement. The capability tends to emerge as an adequate response to ongoing issues such as:

- users demanding too much and incurring excessive charges
- the business user shopping for a ‘one-stop’ solution
- the supplier demanding it
- needing to coordinate multiple supplier services
- requiring easier monitoring of usage and services.

However, the role is not just about problem resolution. Contract facilitation is fundamentally a coordinating role and includes managing the expectations of the different parties to supply agreements, both internal and external.

⁰⁸ See Oshri, I., Kotlasky, J. and Willcocks, L. (2007) Managing Dispersed Expertise in IT Offshore Outsourcing: Lessons From Tata Consultancy Services. MISQ Executive, 6,2,53-64.

CAPABILITY 8: CONTRACT MONITORING

Located exclusively in the supply facing space of our framework, contract monitoring involves making inputs into the development and maintenance of a robust contract as the basis for sound governance. The role then involves holding suppliers to account against both existing service contracts and the developing performance standards of the services market.

Not all potential issues and expectations can be identified at the onset of a relationship, and the contract will be subject to differing interpretations as issues arise. Moreover, as each outsourcing arrangement has its own set of issues and dynamics, there can be no standard contract, only standard headings. This makes contract monitoring a highly skilled core capability that is focused on preserving the integrity of the organisation's contractual position across the lifetime of the outsourcing arrangement.

While all the organisations we studied recognised the importance of contract monitoring and staffed it at the beginning of their outsourcing deals, they all too frequently put the wrong people in place. Especially in the large deals, the dynamic nature and extent of the task was underestimated.

CAPABILITY 9: VENDOR DEVELOPMENT

Anchored in the supply face of our framework, the vendor developer is concerned with leveraging the long term potential for suppliers to add value. By creating 'win-win' situations the vendor developer enables suppliers to increase revenue by providing services that increase business benefits.

Given the prohibitive size of switching costs, it is in the client company's interest to maximise the contribution from existing suppliers. They also need to guard against what we call 'mid-contract sag' where the supplier delivers to the contract, but only to the letter.

"Yes the supplier can achieve all the things that were proposed – but where is the famous 'value added service'? We are not getting anything over and above what any old outsourcer could provide."

IT service director, aerospace company

Compare this with a European retail multinational that meets suppliers formally at senior levels to find new ways forward. According to the CIO,

"There are certain things we force on our suppliers like understanding our business and growing the business together."

In their 2001 five year annually renewable back office outsourcing arrangement, Lloyds of London and Xchanging developed an innovative approach. They formed a jointly owned third entity, XIS, to deliver services. Joint ownership and management, together with shared risk and reward, has placed considerable emphasis on win-win innovations beyond the original contract⁰⁹.

09 See 'The Promise of Enterprise Partnership' in Willcocks, L. and Lacity, M. (2008) Information Systems and Outsourcing in Theory and Practice (Palgrave, London).

It is easy to see why building such capabilities may not be the most obvious senior executive priority. If IT is mainly a commodity why would you want to invest rather than divest? And is not handing over responsibility for management and delivery at the heart of why you outsource in the first place? Moreover, the process of getting to contract is costly (between 0.4 and 2.4 per cent of contract value), time consuming and effort intensive, even before you get into the big challenges of transition. The urgent drives out the seemingly less important... until problems keep coming back, and new problems arise, for which you cannot find the resource, or knowledge, to handle.

Low spenders on core capabilities do not perform contract management; they perform what we call contract administration. This may work where no significant contracts exist and where the outsourced activities are simple to define, discrete, and easy to monitor. For all other outsourcing situations contract administration leads slowly and ultimately to an expensive erosion of control over the client organisation's IT destiny. One symptom of this we regularly observe is the spreading of a person over several different roles. Thus in some business units at DuPont we found 'leaders' in fact doing contract facilitation, contract monitoring and relationship building work as well. At a European-based bank the contract manager was simultaneously informed buyer, leader, contract facilitator, relationship builder and occasional technical fixer and architect – basically a one-man in-house IT function. Both situations were subsequently corrected.

All too often we find organisations building core capabilities only after experiencing serious problems. Typically organisations miss the chance to pre-empt problems by evolving core IS capabilities at a speed that matches the company's ability to absorb increasing degrees and different types of outsourcing (refer page 22). The need in outsourcing is to get on to the optimal, most cost effective path (see Figure 2). This is done by managing the nine stage, 54 activity lifecycle process and activities described in earlier papers¹⁰. But the most critical, and often the most neglected area is building core retained capabilities. This is surprising, because core IS capabilities are the final and best insurance policy companies can take out against having a poor outsourcing experience.

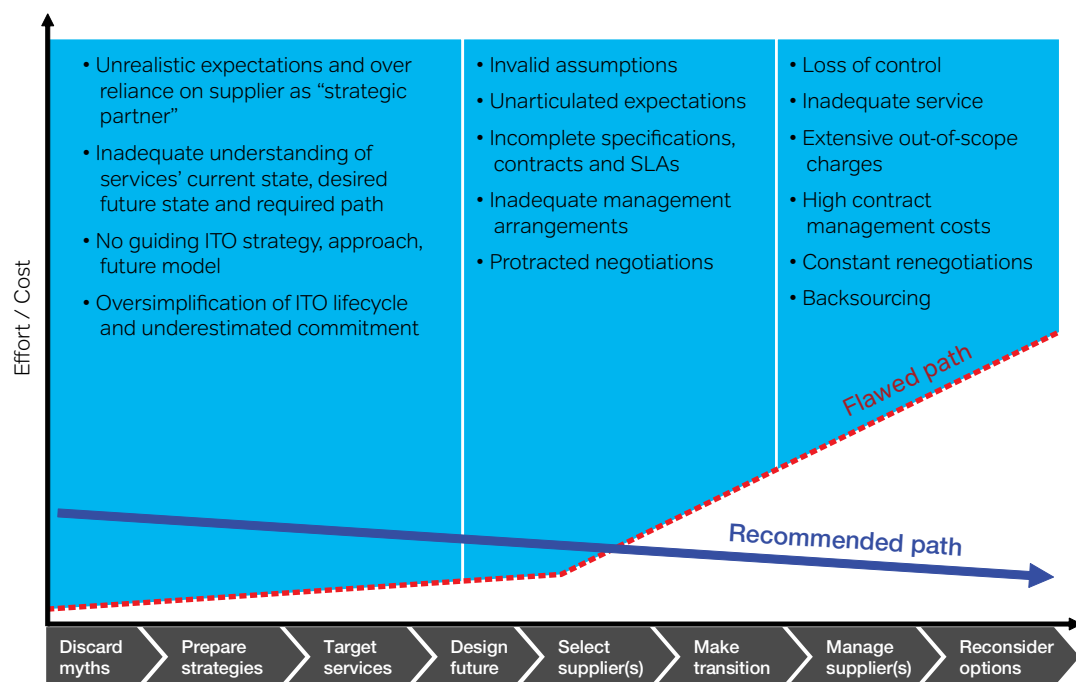
However, building core retained capabilities costs money. We find ongoing outsourcing management costs from three to eight per cent of total contract value, and predict it will rise to 10 to 12 per cent by 2010¹¹. But on core IS capabilities you have to spend in order to save. Figure 2 (page 12) shows the optimal path, as well as the flawed path all too many organisations take toward outsourcing. Without upfront architecting and capability building work, significant issues will accumulate. Typically these include loss of control, inadequate service, extensive out-of-scope charges, excessive management time and effort and constant renegotiation. Along with this dawns a growing belief during the late regeneration phase that the organisation either needs to backsource the activities, or switch to another provider. All these issues, often together with legal disputes, cost a lot more to resolve later in the cycle. Suppliers too recognise the eventual pain that poor architecting work and inadequate internal capability can cause. As one supplier CEO told us,

“The customer from hell is the naïve buyer.”

10 See The Outsourcing Enterprise – The CEO role in delivering strategic advantage, The power of relationships, The CEO guide to selecting effective suppliers (<http://www.logica.com/page/index.aspx?pagelid=400009149&title=the+outsourcing+enterprise>)

11 Figures from reviewing nearly 800 outsourcing arrangements. See Willcocks and Lacity (2006) op. cit.

Figure 2: Getting on the optimal cost effective path



Source: Intelligent IT Outsourcing - Cullen and Willcocks, 2003

Traditionally in outsourcing, clients prioritise short term cost reduction gains over an 'invest to save' philosophy. For example, in their 1997-2007 deal with EDS, Commonwealth Bank Australia greatly under invested in their core capabilities. To get off what was manifestly becoming a flawed path, they had to strengthen their internal capability dramatically. From 2001 to 2005, with CEO approved funding, staff numbers were increased from 32 to 126. This turned an adversarial, cost-focused relationship with the supplier into a much better controlled one – indeed the contract was renewed after ten years. It also underpinned two successful IT-enabled bank transformation efforts between 2001 and 2006.

Core retained capabilities are a mature, realistic, tried-and-tested way of getting on the optimal cost-effective outsourcing path. The message? Under invest in core retained capabilities at your peril. Get on to the optimal cost effective path before it is too late.

Throughout this series we have stressed that outsourcing is best seen as a radical change in the way management is done, not as the handing over of management. As the finance director of oil major BP told us,

“To overcome the problems we have seen developing in other outsourcing contracts, we need to create a culture supported by process; the key thread is our internal behaviour.”

Commenting on HR outsourcing at British Aerospace, an HR executive put it this way,

“The fact is you have given up managerial control, you don’t control resources any more, you manage the service.”

In practice, outsourcing creates six major adaptive challenges for the client organisation.

1. HUMAN RESOURCE CHALLENGE

The nine roles all demand high performers, who can develop into a high performance team. In contrast to the more traditional skills found in IT functions, there needs to be a much greater emphasis on business skills and business orientation in nearly all roles, except those of technical fixers, and to some extent technical architects. There is also a significantly increased requirement for ‘soft’ skills across all roles, except that of contract monitor.

Typically, retained functions and staff tend to possess strong technical expertise, but lack business skills, and are weakest in interpersonal skills. The major shift we have been observing in organisations such as Esso, ICI, DuPont, Commonwealth Bank, Lloyds of London, BP, and GE is toward fewer personnel, but of very high quality.

Table 2: Retained capabilities: skills, orientations and time horizons

Core IT capability	SKILLS			Time horizons	Motivating values
	Business	Technical	Interpersonal		
IT leadership	high	medium	high	future/present	<ul style="list-style-type: none"> • strategy • structure • individuals
Business systems thinking	high	medium	medium	future	<ul style="list-style-type: none"> • strategy
Relationship building	medium	high	high	present	<ul style="list-style-type: none"> • structure • individuals
Architecture planning and design	low-medium	high	medium	future	<ul style="list-style-type: none"> • technology
Making technology and process work	low	high	low-medium	present	<ul style="list-style-type: none"> • technology
Informed buying	high	medium	high	future/present	<ul style="list-style-type: none"> • strategy • structure
Contract facilitation	medium	medium	high	present	<ul style="list-style-type: none"> • structure • individuals
Contract monitoring	medium	medium	low-medium	future	<ul style="list-style-type: none"> • structure
Vendor development	high	medium	medium-high	future	<ul style="list-style-type: none"> • strategy • individuals

Source: Leslie Wilcocks 2005

Each role requires a specific set of skills, attributes and drivers (see Table 2). By possessing one set, a person will be potentially disabled from high performance in the other roles. Our experience is that one person can deliver high performance in no more than two or three roles at any single point in their career path. This has considerable implications for staffing as well as personal and career development.

In practice, recruitment and retention of a small high quality group poses a major HR challenge. Ideal candidates for the roles would look more familiar as senior professionals within a major management consulting firm. Organisations need to be prepared to upskill and hire. As one multinational oil company executive commented,

“You’ve got to be able to upskill your organisation and to have a human resource policy which provides such training to people in your organisation.”

The logistics manager at a major retailer corroborated,

“To be honest, we had to recruit a few people.”

Moreover companies will need to:

- match their pay to within striking distance of that provided by alternative employers;
- consistently provide them with the level of challenge they look for in the job; and
- provide them with genuine career paths despite their very small numbers.

A further human resource challenge rests with what one respondent termed ‘the legacy people’ problem. In other words, what about existing IT staff that the high performance model specifically excludes? Some approaches we have observed in various combinations are: early retirement, redundancy packages, making people redundant as the in-house legacy systems become redundant, and relocation and retraining. In outsourcing situations one common response has been to transfer such staff to suppliers. One difficulty is that suppliers, understandably, prefer to take only the better motivated and skilled staff. Sometimes the result has been that the staff that remain in-house are not sufficiently motivated, or capable, of meeting the high performance requirement.

2. THE SUPPLIER CHALLENGE

What is the role of suppliers in supporting the high performance concept? In the ongoing Xchanging-Lloyds of London back office deal, one supplier executive offered the following insight,

“The essence was maintaining active involvement from senior management on both sides, coupled with the availability within the supplying company of the necessary range of skills, often deficient in previous supplier models.”

In specific projects or services, suppliers need to have complementary rather than competing or duplicating capabilities and skills. Furthermore, it is important to develop mutual cooperation and understanding between the in-house and supplier groups. However, in some cases, different terms and conditions are a source of friction and resentment; suppliers may turn lack of in-house skills to their own opportunistic advantage; and in-house employees may stand back and let supplier staff take all responsibility. Some of the ways towards a more constructive relationship are indicated by the following:

“They (the supplier staff) are part of my team; they sit with my team, so for all intents and purposes they could be working for me. We have brought them into the organisation almost, because they are running a very important production system for us... they also deal directly with the business users of the system... it's worked well because they actually get a sense of responsibility for the service like the internal people.”

- IT manager, UK retailing company

With multi-supplier outsourcing being the dominant trend, a supplier's ability to work with other suppliers also supports the high performance concept. In practice we find this capacity varies considerably from supplier to supplier, and can make a tremendous difference to how much time the internal team puts into intervention and management. Our third paper, *The Outsourcing Enterprise – The CEO guide to selecting effective suppliers*, discusses supplier capabilities in more detail.



3. THE PERENNIAL CHALLENGE - RELATIONSHIPS

In the second paper, *The Outsourcing Enterprise – The power of relationships*, we detailed the power of relationships in securing effective outsourcing outcomes. Part of this is not allowing a large power imbalance to develop in the supplier's favour. A senior IT executive outlines his chastening experience of this,

“The bank outsourced the whole thing, and the supplier was seen as the holder of knowledge. Now four years in, if you want anything done, you have to have one of those “Come to Jesus” meetings with the outsourcer.”

This is very different from other experiences we have noted. For example, the IT director at Lloyds of London says,

“We play very strongly the partnership ticket with our suppliers and ensure they are seen as part of the IT group at Lloyds in their dealings with internal customers.”

Relationships with suppliers can turn into strategic assets – if leveraged properly. But many organisations are still finding their way to achieving this when moving to multi-supplier arrangements. The evidence here supports the case for strong retained capabilities, rather than getting suppliers to manage each other¹². On moving from a single supplier arrangement one public sector IT executive said,

“We want the focus now to come back on our people being responsible for the service, regardless of whether we now sign up three or four contractors.”

Taking a step back from this issue, we concluded in the second paper of this series that relationships become strategic assets only under certain conditions. Firstly, senior management, including the CEO, need to sow the seeds for a successful relationship before the start of the deal, and cultivate it thereafter at three levels – executive, managerial and operational. The contract itself cannot guarantee effective relationships but a poorly drafted one can seriously damage outsourcing health. Appropriate structures and processes are needed to facilitate the development of relationships within and across client and suppliers.

The core retained capabilities detailed above have immense relationship building and leveraging power built into them. Our evidence shows that such relationship management – through senior management attention, contract, structure, process and retained capabilities - can create a 20 to 40 per cent difference on service, quality, cost and other performance indicators. In addition, measures such as relationship value charters, regular relationship health checks and contract and relationship scorecards are useful to set and align targets, and encourage superior performance.

12 BP tried this in its 1993-1998 outsourcing arrangements with three suppliers but found they had to do a lot of unanticipated refereeing and management. Other deals have seen the primary contractor model experience mixed outcomes. Lacity and Willcocks (2001) op. cit. concluded that the risk mitigating approach was to deal directly with each supplier and manage proactively the boundaries between suppliers.

4. THE PROJECT MANAGEMENT CHALLENGE

An additional challenge, which does not appear in Figure 1, is project management capability. In dynamic business environments, the emphasis has shifted from hierarchical, functionally based organisations toward task and project based ways of operating. The logic here is that project management skills will be spread throughout such organisations. Project management must be an organisational core capability, and not the preserve of one function or department. Whatever the IT component in a project, in practice its project manager can come from anywhere in the business. The primary criterion is his/her credibility, which is built on proven successful project experience.

In the core capabilities framework of Figure 1, candidates for the project manager role are most likely to be found in the relationship builder and technical fixer roles. Without this internal capability, in a pharmaceuticals company we saw a project manager, appointed from the business to implement an ERP system, fail through lack of technical credibility. Conversely, in a bank and in an insurance company, several projects managed by IT personnel failed to deliver effective business systems because the technical view of the requirement was too narrow.

Organisations experienced in outsourcing frequently tell us what we learned at BHP Billiton in 2007:

“We outsourced too much project management capability in our first deal, and even if you have somebody doing projects for you, you can never give up project sponsorship, ownership and accountability. We don't believe you can let your hands off the wheel, and to do that you have to have a core capability and a core discipline.”

That said, after one or two generations of outsourcing, many organisations begin to rebuild some of their specific IT project management capability and IT applications teams. For example, Commonwealth Bank Australia in the 2002-2006 period found this an effective way to manage large-scale IT-enabled business transformation projects. Once it had started on a major global ERP implementation with its suppliers, DuPont also began to develop an internal application strategy and team. In such organisations, the organisational project management capability was patchy at best. IT needed strengthening in its ability to have informed technical dialogue with suppliers and influence and contribute to IT service delivery. The IT requirement, especially when large, has to be shaped carefully to changing business needs. An emerging challenge, then, is to gauge how far your organisation needs to create a core IT project management capability.

5 & 6. RISING CHALLENGES - MOVE TO THE CORE?

In the last three years fresh challenges around the outsourcing decision have presented themselves. In principle, one can outsource critical commodities but not differentiators or core capabilities¹³. IT security has leapt up the organisational agenda in this period, not least because of increased offshoring, but also because of heightened awareness of hacking and potential terrorism. The senior IT executive of a multinational resource company suggests how to deal with the challenge:

“We have internal capability around security. Probably not enough. I think in our original outsource, we overlooked the detailed requirement... Clearly we don't want to do security administration. Happy for that to be outsourced. But all the monitoring and compliance, all that sort of thing, we believe we need to keep a pretty tight control over.”

We found many organisations concluding that they should retain capability around the processing of an issue through incident, change and problem management. On a related topic, one respondent stressed the need to manage external communications,

“There is also incident management. If we were to get a serious technical problem or security incident there is a whole load of issues associated with that which we don't necessarily want to expose, or have exposed, to external organisations.”

The retained core capabilities management team will need to take responsibility for these emerging issues. And this leads to looking at the leadership role this team has in sourcing strategy and implementation.



13 See The Outsourcing Enterprise – The CEO role in delivering strategic advantage (<http://www.logica.com/page/index.aspx?pagelid=400009149&title=the+outsourcing+enterprise>)

This Outsourcing Enterprise series is built on a central research observation. Over some 18 years, outsourcing practice has slowly, often painfully, moved up the learning curve, and matured in many organisations into relatively effective outcomes for stable, discrete, back office activities. However, this signifies improvements in the management of outsourcing. Most organisations still have to make the further step of leading and innovating through outsourcing. The essential pillars supporting such a development are: strategy, process, relationships and people. The four papers in this series identify leading practices in these four areas. If leadership runs through all four areas, it is also a slippery concept and needs to be pinned down.

In his excellent book, "Leadership Without Easy Answers¹⁴," Ronald Heifetz makes an important distinction between technical and adaptive work. Technical problems are rarely trivial but what makes them technical is that the solution, in the form of specialist know-how, techniques, and routine processes, exists within the organisation's (or supplier's) repertoire. Managers can delegate such work to specialists and monitor the outcomes.

By contrast, leadership deals with adaptive challenges. In fact, Heifetz defines leadership as shaping and mobilising adaptive work. That is, engaging people to make progress on the adaptive problems they face. According to him, the hardest, most valuable task of leadership is advancing goals and designing strategies that promote adaptive work. An adaptive challenge is a particular problem, often difficult to specify precisely. The gap between values and aspirations on the one hand, and circumstances on the other, cannot be closed by the application of current technical know-how and routine behaviour. Adaptive challenges require experiments, discoveries and adjustments from many parts of an organisation.

'TECHNICAL' VERSUS ' ' CHALLENGES IN OUTSOURCING

Many will see outsourcing as essentially technical work. This is substantially correct for mature, stable, discrete activities. Typical examples include applications support and maintenance, data centre processing, networks and communications. Risks are low when such activities are thoroughly understood, when detailed contracts can be written, when outcomes can be monitored, and where suppliers have requisite technical specialist capability. But even here, the shaping work of leadership, outlined above, is critical. Moreover, there is adaptive work inherent in all forms of outsourcing – it is never just plug-and-play.

Internal leadership is required because services, technologies and business requirements start to outdate before the ink on the contract is dry. In addition, transitioning – 'when the rubber hits the road' - provides a specific set of adaptive issues that supplier leadership can help with. Transferring staff (internally or to a supplier), redundancies, or training people for new IT roles can be minefields - there are all too many unknowns. A major concern is precisely how the relationship between business unit users, the in-house IT function and the supplier's service delivery will play out. Much of outsourcing is emergent, and unfolds as managers, customers and suppliers learn and relearn to work with each other in the face of dynamic demands, staffing, technologies and settings.

14 Heifetz, R. (1994) Leadership Without Easy Answers. The Belknap Press, Cambridge, MA

THE ROLE OF RETAINED CAPABILITIES AND THE HIGH PERFORMANCE TEAM

Each outsourcing arrangement possesses its own distinctive blend of technical and adaptive challenges. The most common mistake has been to predefine outsourcing as a technical challenge requiring technical work, for which, largely, you hire suppliers to accomplish. Consider the following from an IT executive at a bank now four years into a major single supplier outsourcing arrangement:

“Before the outsourcing, and even now during it, there has been very little engagement from the business. Senior business management didn’t see technology as something that was their problem. Let’s get the best technical people, and let them get on with it. Indeed I think that state of mind, and dissatisfaction with internal IT, was what led to outsourcing in the first place. The result is problems get fixed now, but the outcome is rarely what they wanted.”

The second mistake companies make when adaptive problems arise during the performance of the contract, is to assume that they are amenable to technical fixes. The same IT executive continues,

“We never resolve the issues. It’s unresolvable because the bank still doesn’t lead on or own the outcome. So while they continue to blame the outsourcer for not delivering something which they can neither describe nor write down or articulate or agree on, it’s just not going to work.”

Unfortunately, these two species of mistakes, in different forms, pretty much describe the root of the problems in all the failed or deeply disappointing outsourcing deals we have encountered over 18 years of research and advisory work.

Leadership has to be provided on a ‘whole organisation’ basis within the context of a sourcing strategy that is consistent with long and short term business direction and ambition. We will describe how to evolve to such a leadership position in the next section. Our third paper¹⁵ also demonstrated that, for effective outsourcing, supplier leadership was needed in up to twelve capabilities. With such a leadership context in place, retained core IS capabilities operate much more effectively than if there were only an isolated leadership source. In outsourcing, the core team’s leadership role resides in retaining control of the IT destiny, developing creative responses to issues, achieving superior performance, and keeping the innovation agenda alive. This means dealing with the mix of technical and adaptive challenges facing the business units and external and internal suppliers. In other words, organisations need to lead in business, architecture, delivery and governance competencies (see Figure 1). This in turn involves teaming across the business units and supplier(s) as well as within the IT function. As one financial services CIO put it,

“Across the parties there’s got to be a tight link, a kind of family-type link.”

15 See The Outsourcing Enterprise – The CEO guide to selecting effective suppliers (<http://www.logica.com/outsourcingenterpriseseries>)

In the core capabilities, team leadership is most obviously found in the role of CIO:

“How important do I think leadership skills, relationship building skills and influencing skills are in my role? That is the job isn't it?”

- CIO, media company

However, leadership, with or without authority, will be needed in each role in order to identify and deal with adaptive challenges as they arise. A deputy CIO at DuPont describes this through two generations of multiple supplier outsourcing arrangements:

“Every problem we have is a leadership problem... Leadership is extremely key, it's key at making anything work at any level. I guess some of that is relationships, but it's trust, it's credibility and part of credibility is making things work... I think making technology work, beginning well and then having the credibility to be able to make decisions and make things happen go hand in hand... I think that's relationship building, it's leadership and we're also learning from the suppliers.”

Figure 1 clearly demonstrates that the other eight roles are set up to provide leadership in distinctive areas, whether at strategic, managerial or operational levels. But the fundamental task of leadership in outsourcing is delivered through the synergies of operating as a high performance team.

LEADING THROUGH THE 'HIGH PERFORMANCE' TEAM

The nine roles form a team in two senses: firstly, the roles are complementary and interdependent; secondly, the role holders need to be able to work together interpersonally. The roles require high performers – people who outperform others by a considerable margin. The IT director at Lloyds of London described his people in this way:

“I've de-layered the structure... the staff have to be self-managing and self-motivated and deal with issues themselves rather than historically moving up the hierarchy of control to get the answer... it's much flatter and definitely more flexible. More responsive.”

Our research shows these high performers sharing three characteristics. Firstly, they are achievers with a projects/results orientation. They tend to set high standards for themselves, are decisive and tough-minded, with good communication and influencing skills. Secondly, they have a learning orientation. They are motivated by change, have a high learning capability, are imaginative and enjoy experimenting. Finally, they are adaptable with flexibility in their management style profile, and a networking/partnership orientation.

Given that these high performers have distinctive styles and motivations, there is a potential threat to teamwork in the high performance IT function. However, looking across 35 companies with extensive outsourcing arrangements that have adopted aspects of the core IS capabilities model, mutual respect for ability, together with the network orientation of most role holders allows for creative rather than destructive tension.

Beyond the quick fix: evolving to lead and innovate in outsourcing

Historically, many organisations outsourced as a quick fix to deal with the ‘necessary evil’ of IT – either as a commodity service, or out of dissatisfaction with the internal IT function’s cost and service performance. This approach got rid of some problems, but others persisted. Furthermore, the act of outsourcing introduced many new problems – for which it was all too easy to blame the supplier.

If they are to leverage outsourcing successfully, senior executives need to change their mode of management. This in itself is a major adaptive challenge. The learning has been slow and frequently painful, but to get really strategic benefits from outsourcing, organisations need to evolve their ability to lead and innovate. From this series four rules emerge:

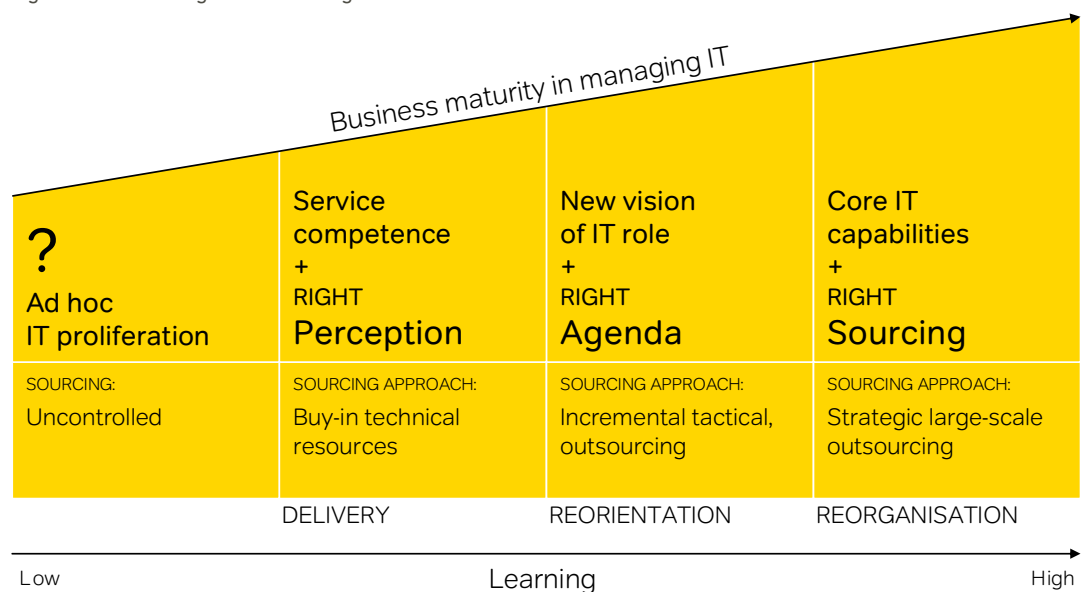
1. DIAGNOSE YOUR POSITION: LEARN TO BE SMART ABOUT YOUR IGNORANCE

Pinpoint your current position on Figure 3. If you are at the question mark stage, troubles you face might include:

- IT proliferates in an ad hoc manner
- costs are not under control
- internal IT service is inadequate
- business users seek alternative suppliers and look to their own IT needs
- a lack of IT synergies and economies of scale across the organisation.

Is outsourcing a solution? It could be, in part, but do you have the ability to manage anything other than very small scale contracts, or a few independent contractors? Almost definitely not. Outsourcing may be a quick fix, but it is unlikely to be a lasting solution.

Figure 3: Growth stages and sourcing for the IT function



A better option is to shift into a Delivery phase and develop internal capability. At this stage, an IT executive will need to be appointed to focus on building technical and service competence, while ensuring that business managers gain a correct perception of improvements in IT performance. Building internal IT know-how and capability is vital during this stage.

With the Delivery phase accomplished and providing a reliable platform, a Reorientation phase follows. During this stage the business units need to become more proactive in leveraging IT strategically for business purpose, while the IT staff need to become more business-focused. The CIO, with the help of senior business executives will need to provide active leadership to achieve these objectives. The adaptive challenges involved in this, and the lack of internal capability to manage large-scale outsourcing, underscores the need for an incremental use of the external IT services market. Reorientation is a crucial phase, and many organisations that are disappointed by lack of strategic payoffs from the outsourcing they have done will diagnose themselves as somewhere early in the Reorientation phase.

With Delivery and Reorientation realised, the organisation can now embark on Reorganisation. With IT and business strategy closely aligned, and business managers mature in their ability to leverage IT for strategic purpose, many IT responsibilities can be devolved to the business units. We found that this was increasingly the case at DuPont and CBA. Meanwhile the IT function can complete its move to a high performing, core capabilities model. Large-scale outsourcing becomes much less risky, and the strategic payoffs become more likely.

2. PRIORITISE THE DEVELOPMENT OF RETAINED CORE CAPABILITIES: THERE IS NO QUICK FIX

Across the organisations that implement our core capabilities framework, we see a common pattern and timeline in the building and usage of specific capabilities (see Figure 4). We have seen organisations starting in the Delivery stage take between three and five years to evolve through to Reorganisation.

In the first stage - Delivery – organisations focus on Contract Facilitation, Making Technology Work and Architecture Planning. The CIO, as leader, often has a strong technical and service track record. These capabilities ensure that services are delivered effectively to meet business needs, and that 'firefighting' does not impede the development of the longer term capabilities. At the same time, Architecture Planning ensures the development of a coherent blueprint for the present and future technical platform.

Reorientation can only begin once the Delivery stage has been accomplished and established. Reorientation requires much adaptive learning by both IT and business staff. To support and accomplish this, the IT function's main priority will be to develop Business Systems Thinking and Relationship Building capabilities. At the same time the CIO will be more focused on, and need the skills for, working with senior executives and the Board. At this stage, we often see the CIO repositioned as a direct report to the CEO.

Reorientation is a crucial phase that kicks in once an organisation has the right IT and business capabilities in place and is orientated towards leveraging IT strategically for business purpose. At this juncture, effective IT-enabled business transformation becomes feasible, as we found in two major outsourcing deals at DuPont and Commonwealth Bank Australia across the 1997-2007 period. Reorientation is only possible if the business has also developed sufficiently to apply core organisational capabilities in programme, project and change management (even if these are first developed within the IT function). IT leadership is no longer just the preserve of IT but spreads also into the business units and the Board.

3. USE THE EXTERNAL SERVICES MARKET SELECTIVELY: TIMING IS EVERYTHING

During Reorganisation, the core capabilities model can be fully staffed, and its leadership potential can be harnessed to deliver superior IT performance. The CIO will focus on considerably strengthening its Contract Monitoring, Informed Buying and Vendor Development capabilities. This allows the internal high performance team to leverage both multiple suppliers and the external services market more extensively and on a more long term, collaborative basis.

The evolution of core IS capabilities shown in Figure 4 has strong implications for mitigating the risks inherent in using the external IT services market. At the Delivery stage the IT function is often not good at managing outsourcing; and its main priority should be building up internal technical and service capability. Where external resources are needed, they should be contracted on a 'buy-in' basis, whereby the organisation pays for external resources that remain under internal management control (see Figure 3).

During the Reorientation phase selective outsourcing becomes a low risk option. Typically 15 to 35 per cent of the IT budget is allocated for third party service provider management. The IT strategy is in place, technical service is understood and measured, and low value IT work is outsourced. The internal IT workforce is free to focus on new development and work of higher business value. To assist this approach, typically some Contract Monitoring capability is needed.

For the organisation to move to the Reorganisation phase, the IT function must be positioned to add value to the business both through its internal capabilities and by leveraging the external IT services market – not by just cost cutting. At this stage apposite Vendor Development and Informed Buying must be built to match the degree of outsourcing to be undertaken.

In our experience, large-scale outsourcing is highly risky unless an organisation has moved its IT function and its business management practices well into the Reorganisation phase. Thus both CBA and DuPont only fully came to terms with their capability problems some three years into their respective large-scale outsourcing deals. They then had to play catch-up and implement core IS capabilities that should have been in place before the contract was signed.

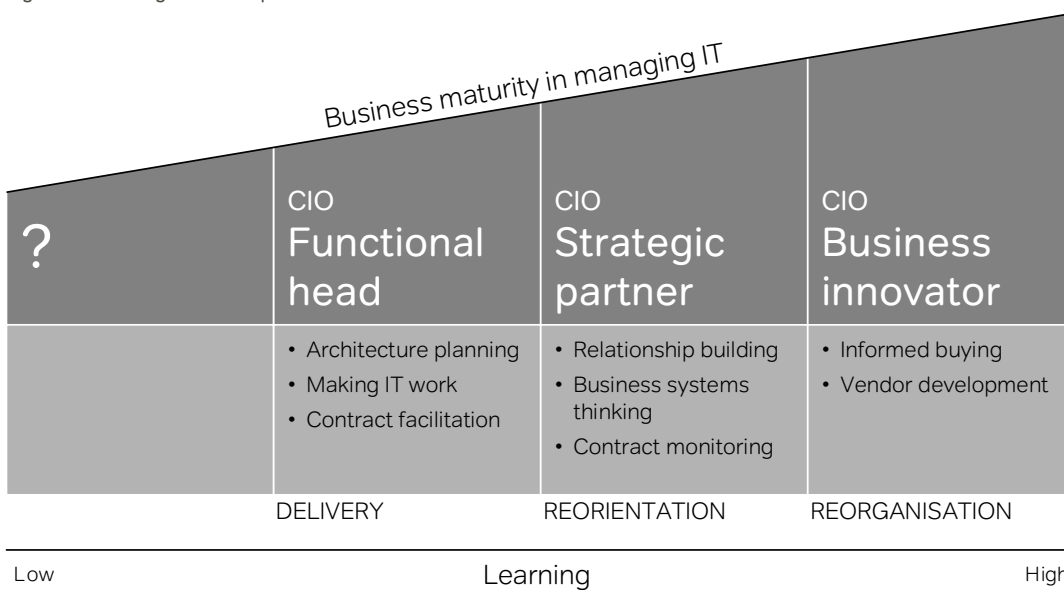
4. DEVELOP AND APPLY CREATIVE AND FLEXIBLE LEADERSHIP: ATTEND TO THE ADAPTIVE CHALLENGES

Leaders operate in business environments that are uncertain, complex, dynamic and ever changing. In such circumstances rational planning can only get you so far. But how do you respond to short term crises and needs without losing perspective on future business direction and differentiation? A key component of the work of leadership is shaping the context in which desired outcomes become possible. This applies as much to outsourcing as any other business strategy.

A core component of leadership then is mobilising people to achieve adaptive work. In our research for the Outsourcing Enterprise series we found senior executives shaping contexts in ways in which more outsourcing was not only possible, but was much more likely to succeed. We also found leaders able to grab diagnostic tools and apply them to solve specific problems in distinctive contexts, while preserving the future IT platform and the foresight into how to leverage it for business advantage. We also found leadership at executive, managerial and operational levels, spread amongst people with and without authority, across IT functions, Boards, suppliers, and business units alike. We found such leadership vital, because to succeed in outsourcing it is not enough to deal only with the technical challenges it presents. The payoffs come from exposing and dealing with the hidden, adaptive challenges.

In many firms and public sector agencies we also saw senior executives demonstrating considerable creativity and flexibility in developing core capabilities. Mapping this to Figures 3 and 4, they all started at different points, but went about creatively pushing their IS capabilities forward in the face of existing resource constraints and urgent issues, while never losing sight of what they were trying to achieve long term through the evolutionary process. Such characteristics helped them play and deliver on the vital game of 'catch-up', and endorse why evolving core IS capabilities will continue to be perennially powerful in contemporary organisations.

Figure 4: Evolving core IS capabilities



THE GLOBAL SCENE

- 1 Spending will continue to rise in all global sourcing markets. But BPO will soon overtake ITO. The ITO and BPO outsourcing markets will continue to grow through what has always been the dominant trend: multiple supplier sourcing.
- 2 From viewing India primarily as a location for low-cost outsourcing, global clients will perceive it as a destination for excellence. China's investment in ITO/BPO services signals promise, but Western clients will still be wary. Looking beyond India and China, developing countries will become important players in the global business and IT services markets.
- 3 Near-shoring will become much more prevalent. Within the USA, rural sourcing will become a niche market.

NEW TYPES OF OUTSOURCING

- 4 Large companies will give application service provision (ASP) a second look. 'Netsourcing' will see suppliers differentiating themselves by offering customer-based services while commoditising their virtual delivery platforms.
- 5 Knowledge process outsourcing will increase. But within other outsourcing arrangements knowledge management will still not feature on the radar screen.
- 6 Freelance outsourcing will increase.

SUPPLIER STRATEGIES

- 7 Major global and Indian suppliers will increasingly emulate one another. Indian suppliers will mature and diversify, while others will increase their number of low-cost captive centres or offshore alliances to stay price competitive. Large global suppliers will use acquisitions, both large and local, to expand their customer base.
- 8 Alliance supply networks such as prime contracting and best-of-breed will become the norm in large-scale outsourcing deals.
- 9 As multi-sourcing dominates, suppliers will have to get used to the probability of more customers in lower value deals.

CLIENT DEVELOPMENTS

- 10 Outsourcing will help insourcing. But backsourcing will be minimal. Outsourcing is here to stay.
- 11 Clients will transcend 'hype and fear' and migrate to maturity with ITO but less so with BPO and newer outsourcing forms. Maturity will be signalled by value-addition overtaking technical excellence, and even cost, as a priority. Also by building beyond contract management to achieve outsourcing leadership and innovation capabilities.
- 12 Relationships will be increasingly managed and leveraged as strategic assets. The indicators of this will be: more rigorous relationship planning and measurement, more contracting based on values and behaviour, and, on client demand, suppliers becoming more entrenched in their client's business.
- 13 Outsourcing failures and disappointments will continue to occur. The main causes will be:
 - organisations taking on more than they can manage
 - contracts with poor payoffs
 - inflexible contracting in dynamic environments
 - suppliers selling more capability than they can deliver
 - clients failing to learn quickly
 - clients failing to invest in the leadership practices and retained capabilities needed to keep outsourcing aligned with short term back office service requirement and long term business direction.



About the authors



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He is co-author of 28 books and over 160 papers in journals such as Harvard Business Review, Sloan Management Review, California Management Review, MIS Quarterly, MISQ Executive, and Journal of Management Studies.

In February 2001 he won the PriceWaterhouseCoopers/Michael Corbett Associates World Outsourcing Achievement Award for his contribution to this field. He is a regular keynote speaker at international practitioner and academic conferences, has extensive consulting experience, and is regularly retained as adviser by major corporations and government institutions.



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In his professional Army career, as Brigadier, he directed the recruiting operation- an annual requirement of 16,000 people- and was responsible for Human Resource planning for a workforce of 120,000. He commanded engineering operations worldwide, including in the first Gulf War and Bosnia, and led the UK's planned military response to nuclear, biological and chemical terrorism. He was awarded an OBE, for leadership, in 1998.

About the Outsourcing Enterprise series

The Outsourcing Enterprise series, sponsored by Logica, provides leading edge thinking from the perspective of the Chief Executive and suggests the nature of the involvement the CEO should have, as well as those issues which should be considered in order to ensure the success of an IT or Business Process outsourcing decision.

- The CEO's role in delivering strategic advantage
- The power of relationships
- The CEO guide to selecting effective suppliers

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This paper draws upon new research conducted by the authors in the 2006-2007 period. Twenty organisations and their retained capabilities practices were studied. Additionally we draw upon long-standing research in this area, collected in the following research bases.

The first research base consists of 112 sourcing case histories (mainly in the area of IT) studied longitudinally from 1990 to 2001. These are described in Lacity, M. and Willcocks, L. (2001) *Global IT Outsourcing: In Search Of Business Advantage* (Wiley). The second is a study of relationships through seven case histories. This appears in Kern, T. and Willcocks, L. (2001) *The Relationship Advantage* (OUP, Oxford). The third is a 2001-2005 longitudinal study of business process outsourcing practices, with a particular focus on four cases in aerospace and insurance. See Willcocks, L. and Lacity M. (2006) *Global Sourcing of Business and IT Services* (Palgrave, London).

We also draw upon a fourth research stream consisting of ten cases of application service provision, published in Kern, T., Lacity, M. and Willcocks, L. (2002) *Netsourcing* (Prentice Hall, New York).

A further research stream analysed vendor capabilities and is represented in Feeny, D., Lacity, M. and Willcocks, L. (2005) *Taking the Measure of Outsourcing Providers*. *Sloan Management Review* 46, 3. We also draw upon five outsourcing surveys carried out in USA, Europe, and Australasia in 1993, 1997 2000, 2001 and 2002 covering multiple sectors and over 900 organisations.

A further research stream, by Sara Cullen, assessed 100 ITO/BPO initiatives of a variety of business functions during the decade from 1994 to 2003 to determine what worked and what did not work, what drove the various degrees of success and failure, and the emerging lessons. The research is represented in Cullen, S. and Willcocks, L. (2004) *Intelligent IT Outsourcing* (Butterworth) and Cullen, S., Seddon, P. and Willcocks, L. (2005). *Managing Outsourcing: The Lifecycle Imperative* *MISQ Executive*, 4, 1.

Combined, this work forms a 500 plus case research base held by the researchers at LSE, Melbourne and Missouri, St. Louis Universities. (Including survey work the research base represents data from 1,400 plus organisations). The research base covers all major economic and government sectors, including financial services, energy and utilities, defence/aerospace, retail, telecoms and IT, oil, transportation, central, state and local government, health care, industrial products and chemicals, and is drawn from medium, large and multinational organisations based in Europe, USA and Asia Pacific.



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