PROFESSIONAL Outsourcing

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Sourcing leadership

Leadership is vital in outsourcing, but what actually is it? And how is it different from being a good manager? Professors Leslie Willcocks and Mary Lacity and research fellow Andrew Craig present the LSE's answers to the six most frequently asked questions.

For more than two decades, outsourcing practice has slowly – often painfully – moved up the learning curve. Leadership is essential in successful outsourcing, but it is a slippery concept to pin down, let alone apply. Here are the six most common questions about leadership that practitioners ask, together with the answers that have emerged from the London School of Economics' (LSE) extensive case study analysis.

What is leadership in outsourcing?

The best definition is 'shaping and mobilising resources to achieve adaptive work'. Leadership deals with adaptive challenges – problems where the gap between values and aspirations on the one hand, and circumstances on the other, cannot be closed by the application of technical expertise or routine behaviour.

Technical problems are rarely trivial, but the solution – in the form of specialist knowledge, techniques, or routine processes – already exists. Managers can delegate such work to specialists and monitor the outcomes. By contrast, adaptive challenges

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arise when peoples' hearts and minds have to change; when technical fixes fail; when conflict persists, despite remedial action; or when a crisis arises, indicating that an adaptive challenge has been festering beneath the technical ones.

Leadership should not be considered as the preserve of a single person; it can be spread across roles, through teams, and to all levels within the client and provider organisations. Leadership expert Keith Grint put it very well: it is best seen as the art of engaging a community in facing up to complex, collective problems. Modern outsourcing is full of adaptive challenges and work that cries out for leadership and learning strategies. The problem is that they have often been wrongly identified as *management* challenges (see below).

What are these technical and adaptive challenges?

Many practitioners see outsourcing as essentially technical work. Risks are low whenever people understand the activities, can write detailed contracts for them, monitor the outcomes, and the provider has the right specialist skills. But even here the

shaping work of leadership is critical. There is adaptive work in all forms of outsourcing – it is never just 'plug and play'.

Consider a typical IT outsourcing arrangement. Internal leadership is required because the service, technologies, and business requirements begin to date before the ink is dry on the contract. Transferring work to the supplier poses another set of adaptive problems.

In any deal, there are unknowns. A major one is precisely how the relationship between business users, the in-house IT function and the supplier will play out. Much of outsourcing is 'emergent' – as managers, customers and providers learn and re-learn to work with each other in the face of shifting demands, staffing issues, technology challenges, and new business contexts. So even fee-for-service outsourcing includes adaptive challenges that are often mistaken for technical or management ones.

When other typical scenarios are thrown into the mix – multiple providers, offshore work, the outsourcing of IT-enabled back office functions, provider involvement in business transformation, and so on – it becomes clear that the adaptive challenges far outweigh the technical ones. This is where leadership is key.

What roles do CEOs and senior executives have in outsourcing?

Outsourcing impacts on market value, it is pervasive and growing, and the spending alone requires senior attention. So strategic outsourcing is always a boardroom issue and leadership begins in the boardroom with the CEO and key executives.

Outsourcing carries many risks and can enable or disable business strategy. Outsourcing can have a positive, strategic role, and the board alone possesses the crucial bargaining power.

The CEOs who are most successful at deploying outsourcing have a vision that outsourcing can transform their business, and they demonstrate that belief by their own behaviour. The CEO and senior executives, including the CIO, lead in outsourcing firstly by shaping its context.

Photo: iStock

Leadership: Relational issues, adaptive challenges.

> **"Outsourcing impacts on market value. Strategic outsourcing is always a boardroom issue and leadership begins in the boardroom with the CEO."**

Take the example of outsourcing the IT function. This involves:

- Formulating and monitoring a sourcing strategy that fits with dynamically changing strategic and operational business needs over the next five years.
- Ensuring that the organisation can buy in an informed way through understanding the external services market, provider strategies, capabilities and weaknesses, and what a good deal with each provider should look like.
- Shaping relationships and putting in place a process for managing outsourcing across the lifecycle of a deal. ➔

● Shaping the conditions for a contract that delivers what is needed without sustaining hidden or switching costs.

● Developing and sustaining a post-contract management capability that retains control of the IT function's destiny and deploys provider capabilities and performance to mutual advantage.

● Facilitating the maturing of business managers' ability to manage and own the IT function as a strategic resource, including stepping up to roles as sponsors and champions of major IT-enabled business projects.

What is the role of leadership in change and innovation?

Innovation through outsourcing is the definitive example of the need for leadership. It demands a top management team that is designed to achieve new things. It requires the relevant CXO to be a member of the top team, and also a CXO who is both tied to and capable of delivering against an innovation agenda.

He or she should be: a business visionary; a member of the 'inner circle'; a good communicator of direction; an external and internal networker; a purposeful change agent; and an holistic implementation champion. In other words, such an executive shapes the context for and mobilises adaptive work.

It is clear that leadership is different from good management in a number of important ways. Management looks after (relatively) 'tame' problems in conditions of (relative) certainty, applying standard operating procedures to problems that have been previously experienced. Management is the art of delegating such work to achieve the required results.

The more work becomes adaptive the more leadership is required. Leaders deal with tough problems in conditions of uncertainty where new challenges require novel responses. It is not just that the solution is unknown; often the real problem has not even been identified.

The more radical and business focused the change/innovation required, the more

"In-house leadership is vital in large-scale IT projects and back office transformation programmes."

important it is that leadership should come primarily from the client. In practice, in-house leadership is vital in large-scale IT projects and back-office innovation and transformation programmes, because these pose adaptive challenges for the organisation. Teamwork across organisational boundaries and functional silos is vital.

What is the provider's role?

Answers to the previous questions indicate a strong leadership role for providers, which is to:

● Ensure that they have the right capabilities for collaboration. This means that their planning and contracting, organisational design, governance, leadership, programme-management, and customer-development capabilities all need to be strong. Collaborative thinking and action must be 'in the DNA' of all managers and delivery staff;

● Invest significantly in innovation resources and capability;

● Be proactive with clients on how things can be done differently to mutual advantage; and,

● Be capable of working with and across other providers, together with the client, where adaptive challenges exist and innovation is required. Multivendor environments are typical rather than unusual, and this is where collaborative innovation takes place.

What does a transformational leader look like in action?

The LSE can answer this, but would first point to a critical research finding about outsourcing. A single transformational leader, particularly on the client side, can only do so much. Research shows that an effective leadership pairing is required – one person from the client organisation and another from the provider – in order to drive transformation, or to reinvigorate an underperforming outsourcing arrangement.

In the high-performing BPO relation-ships that the LSE has looked at, the

leaders were experienced, capable, and had high levels of credibility, 'clout', and power within their own organisations. Effective leadership pairs enjoyed working together, which some research participants described as 'chemistry'.

They also displayed the following behaviours and attitudes: a focus on the future; a spirit of teamwork; transparency; a problem-solving attitude; an action orientation; trust; and a determination to put the client first.

In several cases where an outsourcing programme had run aground, the LSE found client-provider leadership pairs who were both experienced, but where the combination did not work. Changing one of the leaders (or both, if necessary) can improve performance. The LSE's research found that even BPO relationships that had initially been poor performers could be transformed into good or even great BPO performers under new leadership pairs. And those leaders were able to foster dynamic innovation by creating strong incentives.

Leadership: More than just good management.

● Conclusions

Effective leadership has a necessary consequence that runs through all six questions and answers: mindset and behaviour change. This can happen in the wake of a crisis, but it is better not to get to that point. Lasting, collaborative, high-performance outsourcing comes from sustained leadership. Leadership in outsourcing shapes the context, creates new contractual rules, organises in new ways, and develops teamwork and rising levels of trust throughout the organisation. All this builds the behaviour changes that are necessary to deal with adaptive challenges and to deliver excellent performance. Is this easy? No, not for the client, nor for the service provider(s). In both cases, it requires individuals to step up and take more responsibility than they are used to, much higher levels of proactivity, and a new organisational focus on growing and applying leadership – not just management – capabilities. But is it

"Effective leadership has a necessary consequence that runs through everything: mindset and behaviour change."

worth it? The LSE's research programme shows that it is, because the results across regions, across all types of outsourcing, in domestic and offshore arrangements, and across cultures, are real.

There is a seventh question that the LSE is often asked when presenting its research findings, and that can be answered now: Leaders are not born but developed, through experience and education. This means that developing leaders and leadership skills is the inescapable responsibility of the organisation. Now, over to you. ■

• Leslie Willcocks and Andrew Craig's one-day NOA workshop 'How To Lead Outsourcing For High Performance – A New Perspective', runs on 23 January 2014 in London. Details from www.noa.co.uk. Details of a forthcoming book by Cullen, Lacity, and Willcocks, 'Outsourcing – All You Need to Know', are available from l.p.willcocks@lse.ac.uk