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The Crucial Role of Middle Management in Outsourcing

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Executive Summary

For many years, middle managers have been a primary target for cost-cutting, including when justifying IT investments or cost savings from IT outsourcing. Recently, however, published research on middle managers and our own research suggest that the role of middle managers—in both client and supplier organizations—is a key determinant of the effectiveness of an outsourcing arrangement. Based on our extensive database of in-depth case studies for IT and business process outsourcing, and offshoring arrangements, we identify the key middle manager capabilities and roles in both client and supplier organizations. These capabilities help ensure the relationship chemistry and adaptability needed for effective delivery of outsourced services.

MIDDLE MANAGERS PLAY A KEY ROLE IN MODERN CORPORATIONS

For many years the justification for introducing information technology within companies has been to replace layers of middle managers, to provide greater visibility, and increase efficiency. As a result, middle managers have often become the main target for cost-cutting across companies and, indeed, for outsourcing certain processes. In the 1980s and 1990s, high-profile management advisers such as Tom Peters and Michael Hammer considered the removal of middle managers as a major corporate objective. In contrast, recent researchers strongly endorse the crucial role middle managers play in modern corporations. In fact, developments in technology, the increase in outsourcing, and dramatically changing economic circumstances have seen a revival and strengthening of the role of the middle managers. In particular, our own research shows that middle managers have now become one of the key factors determining whether an outsourcing arrangement is effective or whether it simply adds to the overall cost base.

Traditionally, middle managers have been defined as:

“A level of management in an organization or business consisting of executives or senior supervisory staff in charge of the detailed running of an organization or business and reporting to top management.” (Collins Dictionary, 2009)

1 Carol Brown is the accepting Senior Editor for this article.
This definition is now far too narrow when considering the role of middle managers in outsourcing, because it only describes an inward-looking focus—the main reason why so many management layers could be removed previously. But in technologically and organizationally more complex, globalized environments, middle managers are, in Osterman’s words, “The glue that holds organizations together ... responsible for accomplishing the core tasks of their organizations.”

Senior managers make the agenda-setting decisions that determine an organization’s course, but middle managers have considerable influence on the long road to implementation—on interpreting and modifying, as well as executing those decisions. Osterman’s book-length study of middle managers found them less secure and less loyal than in the past, but in greater demand, better monitored (via information technology), and with a broader range of tasks and responsibilities. They have a strong “craft” commitment to their work but are also ambassadors between top management and the workforce, and between the many teams that make an organization and its collaboration partners function effectively. They are the key resource for coordination, whether interfacing, scheduling, or managing the flow of materials, activities, funds, and ideas through an enterprise or project.

At the basic level, middle managers still have the historic role of acting as the transmission belt between the top and bottom of organizations, but in addition, they now manage internal and external teams and relationships, and are fundamentally involved in managing risk. They make day-to-day choices and key trade-offs that escape top management attention, know-how, and interest, yet are central to an organization’s performance. In service companies in particular, middle managers are Janus-like personalities—looking both ways—externally to the customers and other suppliers, and internally both to senior management to obtain and interpret direction, and to junior managers to whom they provide mentoring and training.

Interestingly, as organizations have de-layered, introduced information technology, and outsourced, so middle managers have increasingly taken on the roles and experiences, including additional stress, of general managers 30 to 40 years ago. Additionally, outsourcing changes the management model further and amplifies the importance of middle management for both clients and suppliers alike.

MIDDLE MANAGEMENT AS “GLUE” FOR OUTSOURCING

Many companies continue to cling to a blindly held belief that outsourcing is a relatively straightforward transaction involving the simple transfer of services to a supplier, and that benefits will follow automatically according to the contract. But outsourcing is not a straightforward transaction; it is a complex strategy for managing the delivery of different ranges of services in changing economic backgrounds and then delivering to precise targets. Middle managers are the means to achieving this. Their role is to implement the company’s vision and to ensure the operations of the company go smoothly according to the defined plan and objectives. This is not as easy as it may seem.

For outsourcing to be successful, relationships have to be established both within and across the client and supplier organizations, and at every level. This is where the skills and experience of middle managers become key. Individual people can get in the way of outsourcing success. At one major oil company, the CIO commented: “When X was in place as a demand manager, nothing got done; when Y took his place, it all began to happen.” In one major arrangement we researched, both client and supplier contract managers fought adversarially over the contract for the first 18 months. Eventually, both were replaced by people more able to build and sustain the 10-year relationship.

In outsourcing, middle managers’ flexibility and leadership skills will determine how well they are able to tailor and adapt initiatives to the company’s changing circumstances. Their ability to do this as well as build the relationship and, for the

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6 Osterman, P., op. cit., 2009. See especially chapters 4 and 7. This study is across functions and industries, and describes what is generally happening at middle management levels in contemporary organizations, including hi-tech companies and organizations that outsource. With outsourcing, Osterman found the business aspects of middle managers’ roles were becoming as important as the technical dimensions (pp. 61-62), a finding our own research endorses strongly. See also Oshri, I., Kotlarsky, J., and Willecocks, L., op. cit., 2009.

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supplier, manage the customer, absolutely drives the bottom line of any business. In addition, major strategic initiatives have to be executed by middle managers in clients and suppliers alike; a strong middle management team can produce outstanding operational results, easing the need for top managers to oversee and intervene directly in day-to-day operations. A well-functioning middle management team will also proactively create a stream of new initiatives to remedy problems and seize new opportunities. As a result, strong middle management performance becomes a key leverage point as well as a scarce resource. In practice, middle managers ensure a smoother transfer of knowledge and therefore help to ensure greater efficiency in terms of time by solving immediate problems.

With offshore outsourcing, middle managers must acquire the skills to operate across organizational boundaries and countries, and perhaps in cultures where there can be distinct status differences. The building of “virtual teams” across these boundaries, the development of trust, and the need for effective communication are crucial if team leaders or project managers are to achieve effective outcomes.8 This is particularly complex where a company, say, has offshored business processes to India, customer services to Egypt, manufacturing to China, and software development to the Czech Republic. Given the importance of the necessary middle management skills and the difficulty of acquiring them—experientially over time—it is not surprising that they are in short supply, especially in offshore outsourcing providers. This has led to strong demand for these skills across the globe. As we have described elsewhere, the result is that countries and offshore providers that need middle managers, or companies that run training schemes to develop them, are faced with considerable retention challenges.9

But there are deeper issues than this, which we address later in this article. What should people be trained in? Is it enough to create middle management resources, or is something more needed? And in outsourcing, is it just suppliers that need middle management roles, or do clients need middle managers, and, if so, what are their distinctive roles? Given our findings on the fundamental roles middle managers play in making outsourcing and offshoring arrangements effective, it is important to understand better the distinctive capabilities—as opposed to just resources—client and supplier organizations need to acquire and sustain.

Middle Management Capabilities and Competencies

When organizations outsource, they usually think of the people they need to keep or acquire for the retained organization as individual resources, rather than focusing on what such resources need to add up to collectively. We find that outsourcing clients often follow the same pattern when evaluating prospective suppliers. Resources receive attention because they are highly visible—for example, on-site tours, balance sheets, and resumés. But clients should be much more interested in their own and a supplier’s ability to turn resources—physical and human assets such as physical facilities, technologies, tools, and workforce—into capabilities that, in turn, can be turned into higher level competencies (see Figure 1).

Figure 1: Resources to Competencies Framework

Clearly, it is not enough just to employ people as resources with certain skills. Organizations need human capabilities that form building blocks for organizational competencies. The following definitions help to frame the more detailed discussion of client and supplier capabilities later in this article:

- A capability is a distinctive set of human-based skills, orientations, attitudes, motivations, and behaviors that, when applied, can transform resources into specific business activities.


9 Willcocks, L., Griffiths, C., and Kotlarsky, J. Beyond BRIC: Offshoring in Non-BRIC Countries: Egypt—A New Growth Market, LSE Enterprise/ITIDA, 2009. Middle managers were found to be a scarce and valued resource in 14 countries that were developing their offshoring industries.
• Collections of capabilities, in turn, create high-level strategic competencies that positively influence business performance.

• A role refers to a person formally enacting a capability. For example, in the role of CIO, a person enacts the leadership capability. In the role of, say, procurement manager, the role holder will enact informed buying.

We first look at the most important, and ironically, most overlooked set of middle management capabilities needed in outsourcing—those retained in the client IS organization. Next, we turn the spotlight on supplier middle management capabilities. We then present four general middle management tasks as a framework for thinking about both client and supplier capabilities, followed by guidelines for outsourcing clients firms as they assess these capabilities.

CLIENT FIRM MIDDLE MANAGEMENT CAPABILITIES: MANAGING THE DEMAND SIDE

All too often, we find outsourcing clients underrate the amount of retained middle management capability needed to operate outsourcing arrangements effectively. Our research shows that high-performing IT functions in outsourcing clients are managed by a small residual team of highly capable, demand-led, and mainly strategy-focused people. (The same applies to outsourced HR, finance and accounting, procurement, and administrative functions.) Below, we provide a framework for describing and discussing the composition of such a team and what happens when it is, and if it is not, in place (see Figure 2).

The first author’s joint research over the past decade has identified four competencies needed by the modern high-performing IT function:

• Governance, including leadership and coordination. This involves dynamically aligning the IT function’s activities both internally and with those of the organization as a whole.

• Identifying and delivering on business requirements (Business and Function Vision Competency). This competency is required to carry out the demand-driven tasks concerned with defining the systems, information, and processes to be provided and how they can be used to support the business.

• Ensuring technical capability (Architecture Planning and Design Competency). The competency is needed for the supply-focused tasks concerned with defining the blueprint or architecture of the technical platform used over time to support the target systems and

![Figure 2: Nine Core Capabilities For High-Performing IT and Back Office Functions](image-url)
processes, and with dealing with risks inherent in non-routine technical issues.

- Managing external supply (Delivery of Services Competency). This competency is concerned with defining and managing sourcing strategy. It requires understanding of the external services market and the ability to select, engage, and manage internal and external IT resources and services over time.

We have previously identified nine capabilities that create these four competencies, with the capabilities populating the seven “spaces” shown in Figure 2. The first is the lynchpin Governance and Coordination competency comprising two capabilities. Three of the spaces (those shown in white on the outside of the figure) are populated respectively by business, technology, and service delivery capabilities. Finally, there are three capabilities that represent various interfaces (the shaded areas of the figure).

**Governance and Coordination Competency**

The governance and coordination competency requires Leadership and Informed Buying capabilities. The leader’s role is to devise and institute organizational arrangements—governance, structures, processes, and staffing—that successfully manage internal and business interdependencies, in ways that ensure the IT function delivers business value for money. One IS leader in charge of a seven-year $900 million outsourcing relationship commented on his role:

“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 a bit 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 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?” (CIO, multinational mineral resources company)

In an organization that has decided to outsource most of its IT services, the informed buyer role is the most prominent after the CIO. Informed buyers analyze and regularly benchmark the external market for IT services; select the 5- to 10-year sourcing strategy to meet business needs and technology issues; and lead the tendering, contracting, and service management processes. Informed buyers also require an intimate knowledge of suppliers, their strategies, financial strength, and their capabilities and incapabilities in different sectors, services, and regions. One informed buyer described the pragmatic nature 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.” (IT manager, energy company)

**Business and Function Vision Competency**

In leading-practice organizations 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 organizations recognize that business processes should be redesigned in the light of technology potential. The mini-case below illustrates the problems faced when this capability was not in place.

### Mini-Case: Importance of Business Systems Thinking Capability

A major insurance company that did not have the necessary Business Systems Thinking capability in place contracted a supplier to deliver a strategic IT system aimed at transforming administrative and customer service systems. However, the business transformation was misconceived as an IT project, and the supplier was given primary responsibility and aggressive deadlines. The supplier failed to deliver detailed business requirements on time, and the project was cancelled nine months into the two-year implementation. The CEO learned from this and in later business projects involving IT suppliers, insisted that internal business systems thinker middle managers were in place.\(^{11}\)

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\(^{10}\) Note that the original Client Core Capabilities model was developed by Feeny, D. and Willcocks, L. “Core IS Capabilities for Exploiting IT,” Sloan Management Review (39:3), 1998, pp. 9-21.

Architecture Planning and Design Competency

The principal challenge for the architecture planner and designer is—through insights into technology, suppliers, and business directions—to anticipate technology trends so that the organization is consistently able to operate from an effective and efficient IT platform without having to make major investments in large-scale migration efforts. Planners shape the IT architecture and infrastructure through developing the vision of an appropriate technical platform and through formulating associated policies that ensure necessary integration and flexibility in IT services. The mini-cases below show how several outsourcing clients belatedly recognized the need to retain this capability.

Mini-Cases: Architecture Planning Capability Needs to be Retained

Any outsourcing arrangement provides a strong test of the value of retaining the Architecture Planning capability. We encountered a bank and a manufacturer that gave away their architects, assuming that architecture planning was technical and could therefore be left to their outsourcing suppliers. Three years into outsourcing, each found they had to rebuild 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.

When looking to agree to new outsourcing contracts, the CIO of a public sector water utility 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?”

Delivery of Services Competency

The first three competencies are concerned primarily with the governance, business, and technology needs of the client organization. The fourth comprises the capabilities required to manage and ensure external supply. The Contract Monitoring capability ensures the development and maintenance of a robust contract as the basis for a sound governance framework. The role then leads on to holding suppliers accountable against both existing service contracts and the developing performance standards for 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, there is no standard outsourcing contract, only standard headings, as each arrangement has its own set of issues and dynamics.

While all organizations we have studied recognized the importance of the Contract Monitoring capability, and staffed it at the beginning of their outsourcing deals, they all too frequently put the wrong people in place, especially in large deals, underestimating the dynamic nature and extent of the task.

The Vendor Development capability is concerned with leveraging the long-term potential for outsourcing suppliers to add value, creating “win-win” situations where the supplier increases its revenues by providing services that increase business benefits for the client. Given the prohibitive size of switching costs, it is in the client company’s interest to maximize the contribution from existing suppliers (see Vendor Development mini-cases).

Mini-Cases: Importance of the Vendor Development Capability

It is important to guard against “mid-contract sag,” where the supplier delivers only to the letter to the contract:

“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 retail multinational that meets suppliers formally at senior levels to find new ways forward:

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

(CIO, retail multinational)

In the context of multiple suppliers, Poston et al. (2009) also identify the importance of the vendor developer role. They found that not properly managing the vendor set can lead to suboptimal
outcomes, such as loss of IT process knowledge, lack of innovation, over-spending, and poor quality.\textsuperscript{12}

\textbf{Interfacing Capabilities}

The role holders that operate in the three interfaces in Figure 2 (the shaded areas) are crucial for facilitating the integration of effort across the four competencies. First is the core capability of Making IT and Process Work, where the role holder operates in the overlap between the challenges of the Architecture Planning and Design, and Delivery of Services capabilities. Technology “fixers” are needed to troubleshoot problems and identify how to address business needs that cannot be satisfied properly by standard technical approaches. They understand the idiosyncrasies of the inherited infrastructure and business applications, enabling them to make rapid technical progress—by one means or another.

In outsourced environments, these technical fixers also assess and challenge third-party suppliers’ claims about technical problems and proposed solutions (see mini-case).

\begin{quote}
\textbf{Mini-Case: ‘Making IT and Process Work’ Capability with Technical Fixers}

The need to retain high-quality technical “doing” capability was widely recognized amongst the organizations we studied. For example, the lead IT executive in a public sector agency in charge of a five-year outsourcing deal said:

“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.” (IT services director, tax agency)
\end{quote}

The Contract Facilitation capability is crucial for lubricating the relationship between supplier(s) and business users, not least, by ensuring that problems and conflicts are seen to be resolved fairly and promptly within what are usually long-term relationships. It is an action-orientated capability.

When outsourcing, the need for the contract facilitator role is rarely spotted straight away. Instead, the role tends to emerge in response to on-going issues, such as:

- Users may demand too much from the outsourcing supplier and incur excessive charges
- Business user asks for “one-stop” shopping
- The supplier demands the role
- Multiple supplier services need coordinating
- Easier monitoring of usage and services is required

The Relationship Building capability is an integrating, operational role, facilitating the wider dialogue—and 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 help users and specialists work together, help to identify business requirements, ensure user ownership, and build user satisfaction with IT services.

\textbf{Summary of Client-Retained Middle Management Capabilities}

In Figure 3, we bring together the nine capabilities, expressed as middle management roles and skills. The nine roles all demand high performers who can meld into a high-performance team. In contrast to the more traditional skills found in IT functions, nearly all these roles require a much greater emphasis on business skills and business orientation, the exceptions being the technical fixer and, to some extent, the architecture planner and designer roles. With the exception of the contract monitor role, there is also a significant requirement for “soft,” non-technical skills.

The mix of business, interpersonal, and technical skills will vary by role. The informed buyer role, for example, needs strong communication and negotiation skills, strong knowledge of the outsourcing market, and high business skills, but only medium knowledge of technologies. The technical fixer, on the other hand, will have very high technical skills and good knowledge of business systems but, unlike every other role, needs only medium to low interpersonal skills. The relationship builder will need high interpersonal skills, medium knowledge of the business, and high technical skills.

The conclusion we draw is that middle managers in outsourcing clients need distinctive skills and
attributes to perform different roles, as well as some generic skills. The middle management cadre must be able to function as an integrated team of complementary capabilities if high performance outsourcing is to result. The major shift we have observed in many large organizations is toward fewer personnel in the retained team, but of very high quality.

In practice, recruiting and retaining this small, high-quality group is a major HR challenge, involving both upskilling and hiring:

“You’ve got to be able to upskill your organization and to have a human resource policy which provides such training to people in your organization.” (Executive, multinational oil company)

“To be honest, we had to recruit a few people.” (Logistics manager, major retailer)

Other HR challenges relating to the retained middle managers in outsourcing clients are:

- Paying them at a level within striking distance of that provided by alternative employers
- Consistently providing them with the level of challenge they look for in the job
- Developing career paths for them.

### SUPPLIER FIRM MIDDLE MANAGEMENT CAPABILITIES: EVALUATING SUPPLIERS

Middle managers are fundamental to ensuring that an outsourcing supplier has the capabilities needed for three core competencies—Delivery, Transformation and Relationship (see Figure 4):

- Delivery competency ensures the supplier provides cost-effective service performance against contractual terms and conditions and metrics. Examples of activities are maintaining legacy systems, operating data centers, and servicing a fleet of desktop devices.
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- **Transformation competency** is needed where a supplier has agreed to deliver radically improved services in terms of cost and quality. Examples we have seen include, in a bank, radical overhaul of the IT infrastructure overlain by a standardized services management environment, and, in a business process outsourcing engagement for an aerospace company, large IT investments in a standardized HR suite with self-service functions.

- **Relationship competency** is crucial where a client wishes to engage the supplier’s full capacities and expects the supplier to align itself with the customer’s values and goals, and needs to support long-term, critical business direction and change. We have seen many companies in retail, manufacturing, and financial services increasingly looking for this level of commitment in their IT and business process outsourcing suppliers.

Our research demonstrates that middle managers have crucial roles to play in delivering 12 key supplier capabilities that create these three competencies, as illustrated in Figure 4.13

Before discussing in detail middle managers’ roles for the three core supplier competencies, it is useful first to comment on the Leadership and interfacing capabilities (those in the shaded areas of Figure 4). Leadership in outsourcing suppliers involves governance and coordination, and, as in client organizations, involves lynchpin activities. Our formal definition of the leader’s role is “responsibility for identifying, communicating, and delivering the balance of delivery, transformation, and relationship activities necessary to achieve present and future success for both client and provider.”14

Less formally, we have found that leaders need to have the vision, experience, ability, and political influence and credibility within both supplier and client organizations to serve as the “CEO” of the relationship. The other interfacing capabilities—Program Management, Behavior Management, Sourcing, Customer Development, and Governance—

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13 The Supplier Capabilities Model and the supporting research is explained in more detail in Willcocks, L., and Lacity, M. Global Sourcing of Business and IT Services, Palgrave, 2006. The model was developed from research led by Professor David Feeny of Oxford University, Professor Mary Lacity of the University of Missouri, and Professor Leslie Willcocks of the London School of Economics.

are crucial for integrating and balancing efforts and sustaining relationships across multiple teams and objectives. The roles to deliver these capabilities are discussed below.

**The Delivery Competency**

As shown in Figure 4, middle management roles for seven capabilities are needed if the supplier is to improve the cost/efficiency of the service it delivers to the client:

- The leader identifies and delivers success. In practice, leadership is required at top management as well as middle management levels because modern outsourcing is full of adaptive challenges requiring experiments, discoveries, adjustments, and innovations from many different parts of the organizations involved.
- Business managers deliver in line with service agreements and the supplier’s and the client’s business plans.
- Domain experts retain and apply professional knowledge. When evaluating this supplier capability, look not just for technical know-how but for the much-harder-to-acquire ability to understand the business. Also look for back-office experience in your sector-specific environment—for example, procurement, IT, or HR in a manufacturing environment.
- Behavior managers motivate and inspire people to deliver high-level service and are responsible for transitioning staff to the supplier and recruiting and retaining new staff.
- Sourcing specialists access resources—for example, technology, people, other suppliers—as needed. When evaluating this capability, verify the sourcing specialists’ economies of scale claims, the availability of specialized professional skills that might be needed, and the dynamic areas of quality and staff costs in offshore locations. Also evaluate the supplier’s claims of superior infrastructure and procurement practices.
- Program managers deliver a series of interrelated projects, so this role goes beyond project-level capabilities. A client might also want to expand use of the supplier in the future, and the supplier will also have many other clients.
- Governance specialists track and measure performance. In practice, good governance makes a big difference in outsourcing arrangements, so it is vital that the governance structures are a) well designed and b) well staffed by appropriately skilled middle managers.

**The Transformation Competency**

To deliver a transformation agenda to a client, the supplier needs three capabilities in addition to Leadership, Program Management, Behavior Management, and Sourcing (see Figure 4). Expressing these as roles,

- The process improvement engineer designs and incorporates improvements to client processes and procedures. The supplier’s middle managers and colleagues provide the capability to incorporate changes to the service process to meet dramatic improvement targets.
- The technology exploiter swiftly and effectively deploys new technology on the client’s behalf. For example, a major reason for the adoption of business process outsourcing is to leverage the supplier’s IT capabilities and to make the IT investment that clients are usually reluctant to make.
- The customer developer helps customers make informed decisions. We regularly find that clients accustomed to an internally delivered service invariably need supplier support in transitioning to becoming customers able to make informed choices about service levels, functionality, and costs. As one supplier leader told us when taking over a major contract in a financial services institution:

> “I found I had 200 users who complained about everything. A critical task was to change their mind-sets so that they became customers.”

To fulfill this role, the customer developer needs to a) have personal contact with a large number of users to build a real understanding of how they want to use the service; b) work with client managers to agree a detailed definition and understanding of the required service; and c) create a business relationship in which users feel fully informed and empowered about options and costs.
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The Relationship Competency

Outsourcing arrangements invariably require the supplier, together with the client, to have the ability to establish appropriate relationships at all levels of the relevant organizations. As Figure 4 shows, a client looking for a strong relationship needs a supplier with two capabilities in addition to Leadership, Program Management, Governance, and Customer Development:

- Planning and Contracting, which delivers “win-win” results for both parties. Clients need to ask the question: does the supplier share with you its vision of the potential prize for both parties and a coherent process for achieving it?
- Organizational Design, which creates and implements successful organizational arrangements. In practice, suppliers’ flexibility in this area varies greatly. Some emphasize a “thin” front-end client team, interfacing with consolidated service units. This could constrain the ability to customize services and deliver to a specific client business plan. As a client, consider the degree of flexibility you need. Middle managers in outsourcing suppliers can be vital repositories of knowledge and experience on which designs will work in what circumstances.

To deliver all three core competencies well, an outsourcing supplier needs to have all of the 12 middle management roles described above in place. In Figure 5 we summarize the 12 supplier roles along with the skills required to perform them.

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**Figure 5: Outsourcing Suppliers’ Middle Management Roles**

<table>
<thead>
<tr>
<th>Middle Manager Role</th>
<th>Business</th>
<th>Interpersonal</th>
<th>Technical</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leader</td>
<td>H</td>
<td>H</td>
<td>M</td>
<td>Identifies, coordinates, and delivers overall success throughout the deal</td>
</tr>
<tr>
<td>Business Manager</td>
<td>H</td>
<td>H</td>
<td>M</td>
<td>Delivers in line with service agreements and business plans</td>
</tr>
<tr>
<td>Domain Expert</td>
<td>M</td>
<td>M</td>
<td>H</td>
<td>Retains and applies professional, technical, and domain knowledge</td>
</tr>
<tr>
<td>Behavior Manager</td>
<td>M</td>
<td>H</td>
<td>M</td>
<td>Motivates and inspires people to change and deliver high-level service</td>
</tr>
<tr>
<td>Sourcing Specialist</td>
<td>H</td>
<td>M</td>
<td>M/H</td>
<td>Accesses resources cost-effectively as needed</td>
</tr>
<tr>
<td>Program Manager</td>
<td>M</td>
<td>H</td>
<td>H/M</td>
<td>Delivers a series of interrelated projects</td>
</tr>
<tr>
<td>Governance Specialist</td>
<td>H</td>
<td>H</td>
<td>M/L</td>
<td>Defines, tracks, takes responsibility for, and measures performance</td>
</tr>
<tr>
<td>Process Engineer</td>
<td>H</td>
<td>H</td>
<td>M/H</td>
<td>Identifies and incorporates changes to the service process to meet dramatic improvement targets</td>
</tr>
<tr>
<td>Technology Exploiter</td>
<td>L/M</td>
<td>M</td>
<td>H</td>
<td>Swiftly and effectively deploys technology for business purpose</td>
</tr>
<tr>
<td>Customer Developer</td>
<td>H</td>
<td>H</td>
<td>M</td>
<td>Helps customers make informed decisions about service levels, functionality, and costs</td>
</tr>
<tr>
<td>Planner and Contractor</td>
<td>H</td>
<td>H</td>
<td>M</td>
<td>Designs contracts to deliver win-win results for customer and supplier</td>
</tr>
<tr>
<td>Organization Designer</td>
<td>H</td>
<td>H</td>
<td>M/L</td>
<td>Designs and implements successful organizational arrangements</td>
</tr>
</tbody>
</table>

* H = High, M = Medium, L = Low
LACK OF MIDDLE MANAGEMENT SKILL IN OFFSHORE SUPPLIERS

Our recent research\(^\text{15}\) has shown that offshore outsourcing may only be effective if the offshore production facility has two layers of personnel:

1. A set of workers specialized in production
2. A set of middle managers in charge of supervision.

With this arrangement, middle managers in the supplier shield the client’s top management from having to deal with routine problems faced by workers in the supplier’s facility. Moreover, a middle management layer enables knowledge to be transmitted across countries more efficiently, thus saving time.

However, the speed at which many BRIC\(^\text{16}\) and non-BRIC countries are developing their outsourcing and offshoring industries has often meant that the necessary supplier competencies, roles, and structures are not in place to sustain either the speed or size of growth in the longer term. As a result, many offshore suppliers quickly reach a growth plateau because they do not have the middle managers necessary to hold the company together, ensure smooth operations, and build a corporate knowledge repository.

The lack of middle management expertise in offshore suppliers has been a problem from the late 1990s but has been exacerbated more recently by rapid growth and by more sophisticated work being outsourced. In India—often looked to as a model of a dynamic outsourcing country—the lack of middle managers and low retention rates are causes of concern because they mean there are only limited experienced personnel from whom new hires can learn. As one example, in September 2009, India’s Commission on Information and Communications Technology registered concern over the lack of skilled workers needed to sustain growth, in particular pointing to the lack of middle managers who need to provide outsourcing operations. As a consequence, Indian universities are upgrading their curriculum to address rising demands for middle managers and project managers.\(^\text{17}\) This example again highlights the crucial role middle managers play in delivering outsourcing and offshore services.

Addressing Middle Manager Gaps in Non-BRIC Countries

The Philippines offers complex business process outsourcing services but has insufficient numbers of talented, experienced middle managers.\(^\text{18}\) Egypt, which has a similar gap, is working with other countries, especially India, 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.

The Philippines and Egypt are not the only non-BRIC countries facing this problem. Almost all the countries investigated by our own recent report\(^\text{19}\)—Belarus, Bulgaria, Costa Rica, Czech Republic, Mexico, Morocco, Poland, Romania, Slovakia, Tunisia, Venezuela, and Vietnam—were also trying to address the middle management gap. Each is promoting itself in the offshore outsourcing market on the basis of low costs, enhanced by favorable exchange rates and tax laws, good graduates, and, in many cases, excellent technical or linguistic skills. But, clearly, clients also need to assess middle management capabilities when selecting offshore suppliers.

MIDDLE MANAGERS’ FOUR PRIMARY TASKS IN OUTSOURCING

Middle manager roles in outsourcing arrangements, as in contemporary organizations generally, seem incredibly diverse, but one thing is abundantly clear from our research. Middle managers—in both clients and suppliers—are the key to converting strategic direction and executive decisions into work done. Our research into outsourcing has extended and enriched broader studies on modern middle management by identifying four general tasks for middle managers in both outsourcing clients and suppliers. These four tasks address the outsourcing challenges of coordination, knowledge, relationships, and change, while also shaping future contexts and direction. Figures 6 and 7 show how these general tasks

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\(^\text{16}\) Brazil, Russia, India, and China.
\(^\text{17}\) See “Lack of Mid-Level Managers Hounds Indian BPO,” Global Services, September 17, 2009.
\(^\text{18}\) This pattern emerges strongly from our own research in India, Asia/Pacific and Europe from 2000 to 2010. See also Lacity, M. and Rottman, J. The Offshore Outsourcing of IT Work, Palgrave, 2007; Lacity, M., Willcocks, L., and Zheng, Y. China’s Emerging Outsourcing Capabilities: The Services Challenge, Palgrave, 2010; Willcocks, L. and Lacity, M., op. cit., 2009, chapters 5, 14, and 15.
map onto the distinctive sets of client and supplier middle management roles we described earlier. The numbers in the task columns are our own rankings of importance of a task to each role, where 1 is the most important.

The **Coordinator** task provides the “glue” that holds a company together. Those performing coordinating activities provide vital links up and down and across an organization, and with external suppliers and allies. Both outsourcing clients and suppliers need lynchpin roles that hold the relationship together, manage logistics and progress work. As can be seen in Figure 6, five client roles focus primarily on coordinating activities. As can be seen in Figure 7, suppliers need up to 10 roles for coordination tasks because of their additional fundamental responsibility for delivering operational services.

<table>
<thead>
<tr>
<th>Client Roles</th>
<th>Time Orientation</th>
<th>Middle Management Tasks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coordinator</td>
<td>Knowledge Repository</td>
</tr>
<tr>
<td>Leader</td>
<td>Future/Present</td>
<td>1</td>
</tr>
<tr>
<td>Informed Buyer</td>
<td>Future/Present</td>
<td>1</td>
</tr>
<tr>
<td>Business Systems Thinker</td>
<td>Future</td>
<td>1</td>
</tr>
<tr>
<td>Relationship Builder</td>
<td>Present</td>
<td>1</td>
</tr>
<tr>
<td>Contract Facilitator</td>
<td>Present</td>
<td>1</td>
</tr>
<tr>
<td>Architecture Planner and Designer</td>
<td>Future</td>
<td>1</td>
</tr>
<tr>
<td>Vendor Developer</td>
<td>Future</td>
<td></td>
</tr>
<tr>
<td>Contract Monitor</td>
<td>Future</td>
<td>1</td>
</tr>
<tr>
<td>Technical Fixer</td>
<td>Present</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Supplier Roles</th>
<th>Time Orientation</th>
<th>Middle Management Tasks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coordinator</td>
<td>Knowledge Repository</td>
</tr>
<tr>
<td>Leader</td>
<td>Future/Present</td>
<td>1</td>
</tr>
<tr>
<td>Business Manager</td>
<td>Present</td>
<td>1</td>
</tr>
<tr>
<td>Domain Expert</td>
<td>Present</td>
<td>1</td>
</tr>
<tr>
<td>Behavior Manager</td>
<td>Present</td>
<td>3</td>
</tr>
<tr>
<td>Sourcing Specialist</td>
<td>Present</td>
<td>1</td>
</tr>
<tr>
<td>Program Manager</td>
<td>Present/Future</td>
<td>1</td>
</tr>
<tr>
<td>Governance Specialist</td>
<td>Present/Future</td>
<td>1</td>
</tr>
<tr>
<td>Process Engineer</td>
<td>Present</td>
<td>1</td>
</tr>
<tr>
<td>Technology Exploiter</td>
<td>Present</td>
<td></td>
</tr>
<tr>
<td>Customer Developer</td>
<td>Present</td>
<td>3</td>
</tr>
<tr>
<td>Planner and Contractor</td>
<td>Future</td>
<td>3</td>
</tr>
<tr>
<td>Organization Designer</td>
<td>Future</td>
<td>1</td>
</tr>
</tbody>
</table>

**Figure 6: Client Roles and Four General Middle Management Tasks**

**Figure 7: Supplier Roles and Four General Middle Management Tasks**
The Knowledge Repository task is concerned with retaining information, knowledge, and experience, and providing mechanisms for communicating and using them—in other words, with providing a corporate memory. Without this task being performed, there is a danger of “reinventing the wheel” with every new project or engagement; formal knowledge bases can only get an outsourcing client and its supplier so far. A major weakness we see in clients is failure to retain enough knowledge in-house. For outsourcing clients, architecture planners and designers, together with contract monitors and technical fixers, are particularly important for Knowledge Repository work (see Figure 6). For outsourcing suppliers, process engineers, technology exploiters, and planners and contractors rank highest for the Knowledge Repository task (see Figure 7). Each of the roles provides a different type of knowledge. Note, however, that 11 of the 12 supplier roles are engaged in building and leveraging knowledge. This reflects that, in outsourcing engagements, the main body of knowledge—of different types and for various specialties—will reside in the supplier.

Social Capitalist tasks create vital social capital through relationship management as well as through team and project leadership. In outsourcing clients, this task is performed by the leader, relationship builder, contract facilitator, vendor developer, and informed buyer (Figure 6). In outsourcing suppliers, this task is particularly important for the Relationship competency, with nine of the 12 middle management roles having a part to play (Figure 7).

The Change Agent task is also important in both outsourcing suppliers and clients. In dynamic environments, with frequently changing demands, middle managers can become adaptive change agents in search of business results. In suppliers, middle managers are heavily involved in transitioning work from clients and in transformation efforts and project work on their client’s behalf. This task is highly important for seven of the 12 roles (Figure 7). The leader will also shape the context for change, while the domain expert will be responsible for ensuring change happens. These supplier middle managers need their counterparts in clients in all such activities. As shown in Figure 6, six of the client roles are involved.

Middle managers are crucial for the fundamental management task of delivering and surviving in the short term, while looking after the long-term health of the outsourcing arrangement and the parties involved. There are two factors to consider when deciding how the four general middle management tasks will be performed and by whom. First, organizations must recognize the need for each of the four general tasks and ensure there is an appropriate balance between them and across all parties in the outsourcing arrangement, taking account of the client’s and supplier’s different demand- and supply-oriented tasks.

Second, in Figures 6 and 7 we have also suggested a time orientation: the present and future, the operational and the more strategic. Both must receive sufficient attention in client and supplier alike. For clients, successful outsourcing requires the development of a more strategic, future-focused and demand-oriented retained organization. Not surprisingly, six of the nine client middle management roles are primarily future-oriented. Two of these—the leader and informed buyer roles—are also present-oriented, while the relationship builder, contract facilitator, and technology fixer roles are crucial for their focus on today’s operational challenges.

An outsourcing supplier also needs future-oriented middle managers with more strategic concerns, with the planner and contractor, and organization designer roles being particularly important. The leader, program manager, and governance specialist roles focus on both present and future time horizons. However, all the other supplier middle management roles focus on the short term, to deliver services and respond to operational challenges as they arise.

The Four General Tasks Help to Meet the Adaptive Challenges of Outsourcing

It is all too easy to underestimate how much of an adaptive challenge outsourcing represents to the organizations involved. Much of outsourcing work is about transitioning, stabilizing a service then delivering it cost-effectively. Typically, technical work—for example, desktop maintenance or payroll—requires the application of existing specialist know-how and techniques that can be outsourced relatively safely, assuming competent specialists can be hired. But even relatively straightforward technical work requires two or more organizations to operate together, yet differently, at first with little or no experience of how the other organization works or what its capabilities really are.

The four general middle management tasks are crucial for enabling the levels of adaptability required for successful outcomes by both parties. Greater attention to leadership and middle management is required
as outsourced work becomes more ambiguous and complex—that is, solutions are not clear and problems are complex. Additionally, multiple stakeholders need to be engaged with defining the problem and working together on arriving at and implementing a solution.

Even fee-for-service outsourcing has many adaptive challenges, which are often mistaken for technical challenges. For example, tried-and-tested technology introduced into a new client environment will have impacts on existing technical and social systems and thus present adaptive challenges. The technical fixer will need to collaborate with business users and in-house IT people to get the technology accepted in the new environment.

This is particularly the case in offshore outsourcing involving, for example, IT application development projects, or where innovative initiatives are being attempted. Establishing suitable teams across organizational boundaries and functional silos is crucial for overcoming the adaptive challenges. The middle manager roles and attributes needed to achieve the necessary relationships are key components for the success of such teams. An offshore enterprise resource planning (ERP) development and implementation project we researched required not only senior executive support as project sponsors and champions but also a multifunctional team including a project manager, potential users of the system, in-house IT specialists, external supply management, and technical staff, with senior user managers brought in as needed. Moreover, the suppliers operated onshore, nearshore, and offshore, and there was a strong virtual teaming component, which meant the middle management capabilities described in this article were key to the project’s success.

GUIDELINES FOR OUTSOURCING CLIENTS

Recent research suggests that middle management functions can no longer be easily replaced by technology, which, in the past, has been much of the focus of outsourcing. Today, a new multi-dimensional middle management role has emerged—a role that is critical for outsourcing, offshoring, and virtual teaming. Based on our own research findings, we provide IT leaders in client firms with four guidelines for taking account of the middle management capabilities and roles that are essential for successful outsourcing.

1. Assess the Most Crucial Supplier Middle Management Competencies

The most crucial supplier competencies depend on the client’s objectives. Focus on the supplier’s Delivery competency if you want to maintain or slightly improve existing services. Focus on the supplier’s Transformation competency when you are seeking radical improvements in costs and services, and on the Relationship competency when you require a substantial and long-term commitment from the supplier. Ensure you draw up contracts that reflect these objectives and reward performance in the relevant competencies. Analyze a supplier’s middle management capabilities and track record against the 12 capabilities and roles in this article. Remember that you will not necessarily need all 12 capabilities. However, a supplier’s lack of a required middle management capability will translate into significant hidden costs and problems for you as a client.

2. Retain Core Client Middle Management Capabilities

Plan to create a small but high-performance internal team that retains the nine client capabilities and roles, which are needed to keep control of your back-office and IT destiny. You will need to determine which existing employees can provide the distinctive mix of business, technical, and interpersonal skills required for each role. You will likely need to hire some new people as well. The team can be populated in stages. Start first with the leader role and those that underpin delivery—the relationship builder, technology fixer, and contract facilitator roles. Next, ensure that the architecture planner and designer role is filled. Do not take on more outsourcing than you can manage at this stage. Certainly, do not outsource on a large scale unless the informed buyer, contract facilitator, vendor developer, and contract monitor roles—all service delivery roles—are fully staffed at middle management levels.

3. Reward Client and Supplier Adaptability

Mechanisms for rewarding client and supplier adaptability need to be included in the contract and developed relationally. Planning and contracting are vital starting points for outsourcing and offshoring, but that is all they are. The plan rapidly becomes outdated, and there is an immense amount of adaptive work in outsourcing that middle managers will play a vital role in accomplishing. The contract will be outdated on the day you sign it. This means...
that ongoing governance and relationships are the keys to keeping all the promises you and the supplier made to each other. And the middle managers in both parties are the keys to ensuring that the promises and concepts are delivered in the necessary detail to secure success.

4. Invest in Ways to Help Suppliers Develop Middle Management Capabilities

The mature clients we researched understood the importance of ensuring their suppliers had the middle managers necessary to deliver more than a technical service of a certain quality as stated in a service level agreement or job specification. In prior years, a major pharmaceutical company seconded middle managers to its offshore supplier in India to help develop the supplier’s middle management expertise: while the supplier had cheaper and superior technical and process expertise, the lack of middle managers might have caused its performance to flounder in vital, unmeasurable ways. We have also encountered large U.S.-based multinationals that have run transition programs for their suppliers, designed not just to pass on knowledge of the business and to develop relationships but also to identify potential middle managers in the suppliers. When a client company complains about the lack of added value from its outsourcing relationships, invariably it is useful for the client to ask itself: how much have we invested in the middle managers needed to achieve such added value, not just in our own organizations but in our suppliers as well? Other researchers have also provided guidelines for investing in the development of outsourcing suppliers’ capabilities.20

CONCLUDING COMMENTS

New middle management roles both in an outsourcing client’s retained IS organization and in outsourcing suppliers are emerging. These roles are multidimensional and critical for successful outsourcing, offshoring, and virtual teaming. Middle managers in both parties are the keys to ensuring that:

- Relationships are secured, evolve, and are leveraged for business purposes
- Work is coordinated
- Experience and knowledge are applied in a sustained and practical manner
- Both the client and supplier remain ever-responsive to changes in objectives, resources, external dynamics, and internal disruptions.

Modern, dynamic, complex, and risky business environments challenge outsourcing clients and suppliers alike. And the act of outsourcing bears its own risks. Middle managers in clients and suppliers provide the key adaptive capacities that are all too often unheralded but are nevertheless vital for any modern outsourcing engagement.

APPENDIX: THE RESEARCH BASE

This study draws on the London School of Economics Outsourcing Unit’s 16-year longitudinal case database of over 1,200 global IT and business process engagements (including offshore), studied in-depth from 1993 to 2010. In particular, we have used the findings from the 2003-10 research undertaken into offshore IT and business process outsourcing. This research comprises 112 case studies described in book-length studies: Lacity and Willcocks (2009) Information Systems and Outsourcing: Studies in Theory and Practice (Palgrave); Oshri, Kotlarsky, and Willcocks (2008) Outsourcing Global Services (Palgrave); Oshri, Kotlarsky, and Willcocks (2009) The Handbook of Global Outsourcing and Offshoring (Palgrave); and Willcocks and Lacity (2009) The Practice of Outsourcing: From ITO to BPO and Offshoring (Palgrave). The cases cover outsourcing to India, the Philippines, China, Central Europe, and many non-BRIC countries, with client organizations from the U.S., Western Europe and Australia. The clients are from major economic sectors, including financial services, energy and utilities, defense and aerospace, retail, telecom, IT, oil, transportation, government, health care, industrial products, and chemicals.

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**Catherine Griffiths**

Catherine Griffiths (c.griffiths@lse.ac.uk) is co-founder and Business Development Manager of the Outsourcing Unit at the London School of Economics and Political Science. She has worked with a wide range of companies and researched many areas of IT investment over the past 20 years, in particular, investigating risk, evaluation, and outsourcing. She previously held a research position at Imperial College, London, where she contributed to the founding of two spin-off companies to commercialize optimization software developed from the research base. She is an editor of the *Journal of Information Technology* and co-author of *Beyond BRIC: Offshoring in Non-BRIC Countries: Egypt—A New Growth Market* (LSE Enterprise/ITIDA, 2009).