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THE MIDDLE MANAGER IN OUTSOURCING AND OFFSHORING

Introduction

The landscape of today's offshoring and outsourcing industry is constantly evolving and Egypt's Information Technology Industry Development Agency (ITIDA) has partnered with some of the industry's leading thinkers and advisors to create a series of essays looking at key business issues and trends affecting the industry. The series will look at a range of topics from the ease of doing business to education and resources

This essay, '*The Middle Manager in Outsourcing and Offshoring*' by Professor Leslie Willcocks and Catherine Griffiths of the London School of Economics, looks at what middle managers do and what their role is in making an outsourcing arrangement successful. It also addresses the question of whether middle managers are a dispensable cost of a key resource.

The Middle Manager in Outsourcing and Offshoring: Dispensable Cost or Key Resource?

What do Middle Managers (MMs) do and what are their roles in making an outsourcing arrangement successful? In fact, for many years, the justification for introducing technology has been to remove layers of MMs, and make certain procedures redundant. In the 1980s and 1990s, high profile management advisers such as Tom Peters and Michael Hammer considered the removal of MMs a major corporate objective as they argued for shorter reporting lines and simple structures¹. The middle manager, however, while a hunted species, has survived because the role has quietly evolved and substantially been redefined – in service companies to become a key support to service delivery. The MM role has become multi-faceted, outward-looking and a means of providing mentoring within a company to help an organization grow organically. These findings have been endorsed by recent research into middle managers generally². More particularly, LSE research shows that the MM has now become one of the key factors determining the effectiveness of an outsourcing relationship³. What then do MM's do, precisely, to have so much influence on effective outsourcing?

¹ See for example Peters, T. and Waterman, R. (2004) *In Search of Excellence: Lessons From America's Best-run Companies*. (2004) Profile books, London; Hammer, M. and Champy, J. (1993) *Reengineering The Corporation: A Manifesto For Business Revolution*. Nicholas Brierley, London

² Huy, Q. (2001) *In Praise of Middle Managers*. *Harvard Business Review*, 79, September, 72-79; Kanter, R. (2004) *The Middle Manager As Innovator*. *Harvard Business Review*, 82, July, 150-161; Osterman, P. (2009) *The Truth About Middle Managers*. Harvard Business Press, Boston.

³ Lacity, M. and Willcocks, L. (2009) *Information Systems and Outsourcing: Studies in Theory and Practice*. Palgrave, London; Oshri, I, Kotlarsky, J. and Willcocks, L. (2009) *The Handbook of Global Outsourcing and Offshoring*. Palgrave, London; Willcocks, L. and Lacity, M. (2009) *The Practice of Outsourcing: From Information Systems To BPO and Offshoring*. Palgrave, London.

The General Roles – Coordinator, Knowledge Repository, Social Capitalist and Change Agent

Middle managers have been described as '*executives or senior supervisory staff in charge of the detailed running of an organization or business and reporting to top management*⁴. This is now far too narrow. Working in technologically and organizationally more complex, globalizing environments, middle managers are now found to be the 'glue' that hold organizations together, and are responsible for accomplishing the core tasks of the organization⁵. At the basic level, the MM still has the historic role of acting as the transmission belt between the top and bottom of organizations, but the MM now has scope to manage internal and external teams and relationships and be 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, MMs are Janus-like personalities – looking both ways – externally to the customers and other suppliers, and internally both to their senior management to obtain and interpret direction, and to their junior management where they provide the mentoring and training.

In the context of offshoring and outsourcing, MM must acquire another dimension of skills. These are the skills of dealing across significant boundaries, countries and perhaps cultures where there can be distinct status differences. The building of "virtual teams" across these boundaries, the development of trust and the necessity of effective communication, are crucial if team leaders or project managers are to achieve effective outcomes⁶.

⁴ Collins Dictionary, 2009.

⁵ Osterman (2009) op. cit. studied middle managers generally. His research supports our own findings in outsourcing contexts.

⁶ Kiesler, S., Boh, W.F., Ren, Y. & Weisband, S. (2008). "Virtual teams: High tech rhetoric and low tech experience". In K. L. Kraemer and M.S. Elliot (Eds.). Computerization Movements and Technology Diffusion: From Mainframes to Ubiquitous Computing. Information Today Press, New York

The General Roles – Coordinator, Knowledge Repository, Social Capitalist and Change Agent

This is particularly complex where for example, a company has BPO offshoring in India, customer services in Egypt, manufacturing in China and software development in the Czech Republic. Moreover, recent, specific research has shown that international offshoring to a particular host country may only be profitable if it includes MMs. This enables the company to deal effectively and knowledgeably with production as well as provide supervision during the processes. By shielding the top management in the home country from dealing with routine problems faced by workers in the host country, the presence of middle managers allows a more efficient (time-saving) transmission of knowledge across countries⁷.

In summary, the MMs emerge as the key means by which strategic direction and executive decisions are converted into work. They do this by coordination, retention and communicating information and knowledge, and through becoming repositories of corporate memory and experience. They create vital social capital through relationship

management, as well as through team and project leadership. In dynamic contexts, with frequently changing demands, they can become adaptive change agents in search of business results.

The priority given to the four general roles of *Coordinator*, *Knowledge Repository*, *Social Capitalist* and *Change Agent* will depend on the specific context in which a middle manager is operating. But far from dispensing with these modern roles, outsourcing changes the management model further and amplifies the importance of middle managers for both client and supplier organizations alike.

⁷ See Oshri, Kotlarsky and Willcocks (2008) *Outsourcing Global Services* (Palgrave) and Oshri, Kotlarsky and Willcocks (2009) *The Handbook of Global Outsourcing and Offshoring* (Palgrave).

Middle Management In Offshoring: The Investment Imperative

The speed with which many non-BRIC and BRIC countries are developing their outsourcing and offshoring industries means revenues have come without the corporate structures to sustain sufficiently the speed or scalability of long term growth. Without the necessary MM to hold the company together and provide the smooth running and corporate knowledge repository, many companies reach a growth plateau. In India – often looked to as a model of a dynamic outsourcing country – the lack of MM and the low retention rates are causes of concern because limits the experience available from which graduates can learn. The Philippines offers complex BPO services but has insufficient numbers of talented, experienced middle management.⁸

Egypt has identified a similar MM gap and is working with other countries, especially India, to obtain benefits from targeted secondments. Senior personnel are appointed for fixed terms, to provide both the model and the necessary internal training. This is part of a wide scale strategy to fill both an immediate and longer term shortfall. All the countries featured in the Beyond BRIC report are competing for resources to fill the MM gap by taking similar steps.⁹

⁸ The problem of lack of middle management in offshore suppliers has quietly dogged the industry from the late 1990s, but has been exacerbated with growth and with more sophisticated work being outsourced. 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 viable mid-level managers needed to efficiently manage outsourcing operations. Indian universities were upgrading their courses to address rising demand for middle and project managers. (See 'Lack of Mid-Level Managers Hounds Indian BPO' – Global Services, September 17 2009). This pattern emerges strongly from our own research in India, Asia Pacific and Europe from 2000-2009. See Lacity and Rottman, J. (2007) *The Offshore Outsourcing of IT Work* (Palgrave, London); Lacity, M., Willcocks, L. and Zheng, Y. (2010) *China's Emerging Outsourcing Capabilities: The Services Challenge* (Palgrave, London); Willcocks and Lacity (2009) op. cit. chapters 5, 14 and 15.

⁹ Countries featured in Beyond BRIC include, Belarus, Bulgaria, Costa Rica, Czech Republic, Mexico, Morocco, The Philippines, Poland, Romania, Slovakia, Tunisia, Venezuela, and Vietnam, Willcocks, L., Griffiths, C. and Kotlarsky, J. (2009) *Beyond BRIC Offshoring in non-BRIC Countries: Egypt - A New Growth Market*. LSE, London

Middle Management In Offshoring: The Investment Imperative

In Egypt there is a dynamic story of new company growth and substantial investment in further training. Companies such as IBM, Oracle, Orange, Microsoft and Vodafone have each established sites in the newly formed Smart Villages and are providing their own training and career development as part of the current investment plans.¹⁰ The high level of linguistic capability and the clear motivation of recruits have encouraged these companies to invest in people and training. Each one is importing their international corporate skills and training programmes to help develop potential future managers. Home grown companies such as Teleperformance have appointed European senior managers in order to provide the necessary skills transfer and help to develop the next generation of MM, which are necessary for the continued growth of the company. The country – as others must - has adopted a comprehensive range of government-backed programmes to complement and extend MM training and skills development.

But it is one thing to know that you need to invest; quite another to know what to invest in. The Outsourcing Unit research shows four key targets, requiring a range of highly distinctive roles and skills.

¹⁰ Smart Villages Company is a successful model of “Public Private Partnership-PPP” investment model, with 80% ownership to the private sector and 20% to the Ministry of Communications and Information Technology (MCIT).

The Way Forward: Distinctive Outsourcing Roles and Skills

Given the fundamental roles middle managers play in making offshore outsourcing arrangements effective, what distinctive capabilities do client and supplier organizations need to acquire? In addition to the general roles described above, our work suggests four key areas to target:

1. Middle Management Must Form the Fabric of Supplier Service Competencies

Outsourcing service companies need to demonstrate and utilise a mix of competencies:

Delivery competency sees the supplier providing a cost-effective, improved service performance against contractual terms and conditions and metrics.

Transformation competency is needed where a supplier has agreed to deliver radically improved services in terms of cost and quality.

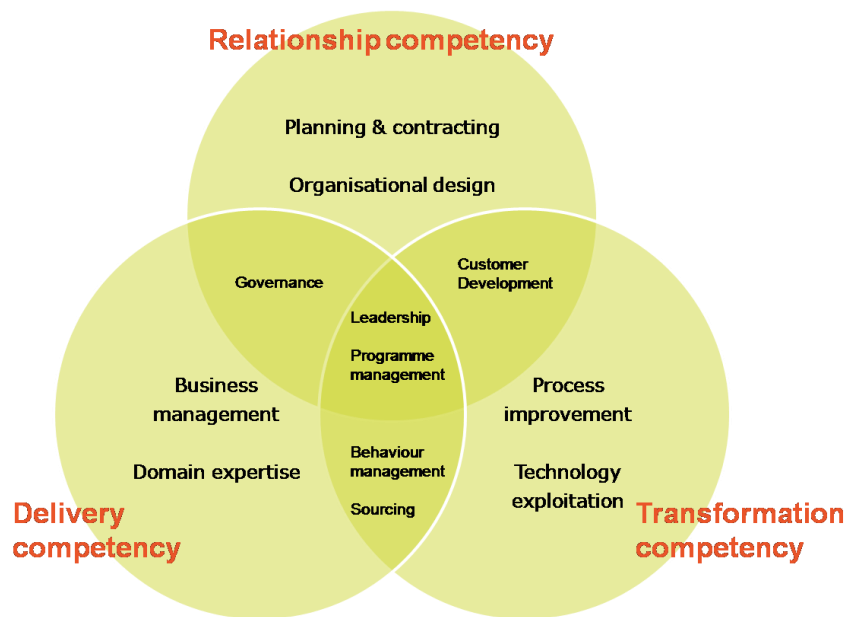
Relationship competency is essential. A customer wants to engage the supplier's capacity and expects the supplier to align itself with the customer's values, goals and needs to support long-term, critical business direction and change.

Customers focus on the supplier's delivery competency when they primarily want the supplier to maintain or slightly improve existing services, such as maintaining legacy systems, operating data centres, or servicing a fleet of desktop devices. They seek the supplier's transformation competency when requiring radical improvements in costs and services. The relationship competency is necessary when seeking a substantial and long term commitment from the supplier.

The Way Forward: Distinctive Outsourcing Roles and Skills

The Outsourcing Unit research demonstrates that these competencies are delivered through the interaction of twelve key supplier capabilities (see Figure 1). Converting these capabilities into roles shows that the following middle managers need to be in place for any supplier team aspiring to deliver all the competencies well.¹¹

Figure 1 – supplier capabilities



¹¹ The Supplier Capabilities Model and the supporting research is explained in more detail in Willcocks, L. and Lacity, M. (2006) Global Sourcing of Business and IT Services, Palgrave, London.

Leader – identifies and delivers success. In practice, leadership is required at middle as well as top 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 manager – delivers in line with service agreements and business plans.

Domain expert – retains and applies professional knowledge. Needs experience and knowledge not just of call centre work, but also of the industrial sector e.g. insurance, and the specific client organization e.g. Allianz, Royal Insurance.

Behaviour manager – motivates and inspires people to deliver high-level service. Responsible for transitioning staff to the supplier and recruiting and retaining new staff.

Sourcing Specialist – accesses resources, for example technology, people, other suppliers as needed.

Process engineer – designs and incorporates improvements to client processes and procedures.

Technology exploiter – swiftly and effectively deploys new technology on the client's behalf.

Programme manager – delivers a series of interrelated projects.

Customer developer – helps customers make informed decisions.

Planner & contractor – delivers 'win/win' results for customer and supplier

Organizational designer – designs and implements successful organizational arrangements.

Governance specialist – tracks and measures performance.

The Way Forward: Distinctive Outsourcing Roles and Skills

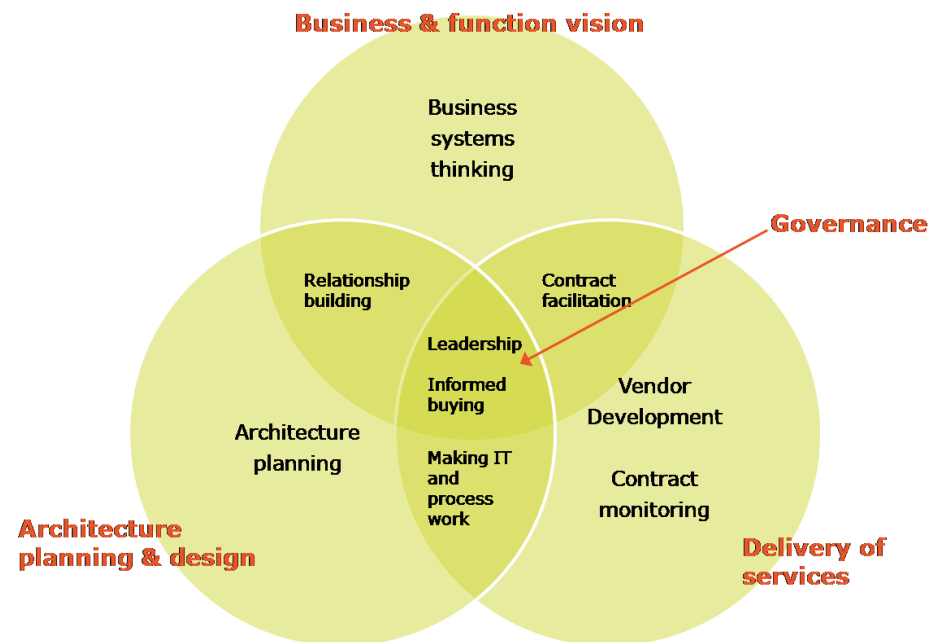
2. Managing Demand – Client Middle Management Capabilities Are The Ultimate Risk Mitigation Factor

Client organizations typically underestimate the amount of retained middle management capability needed to operate offshore outsourcing arrangements effectively. Suppliers also want smart, pro-active and experienced customers. As one supplier CEO told us *'the customer from hell is the naïve buyer.'* Our research demonstrates that the typical back office function – whether for example human resource, finance and accounting, procurement, administration or information technology – needs to retain four competencies:

- eliciting and delivering on business requirements.
- ensuring the business has access to the technical capability it needs e.g. technology platform, human resource processes.
- understanding and use of the internal and external business/IT services markets.
- providing oversight, governance and coordination of back-office activities relative to the organization as a whole.

Nine capabilities make the four competencies dynamic and fully operational. Figure 2 shows how these capabilities both relate to one another, and also underpin the key competencies.¹²

¹² The research and findings are described in more detail and updated in Lacity, M. and Willcocks, L. (2009) op. cit. chapter 15.



The Way Forward: Distinctive Outsourcing Roles and Skills

Table 1 describes the middle management roles required to deliver these nine capabilities, using the example of a retained organization for an IT outsourcing arrangement.

As with suppliers, leadership roles are not restricted to the function head. Each role has varying requirements for business, inter-personal and technical skills. Looking at IT in Table 1 for example, the informed buyer will need strong communication and negotiation skills, high knowledge of the outsourcing market, and high business skills. The technical fixer, on the other hand, will have very high technical skills and a good knowledge of business systems but, unlike every other role, will not need medium to high interpersonal skills. The relationship builder, on the other hand, will need high interpersonal skills, high knowledge of the business and high technical skills. The conclusion? Middle managers need distinctive skills and attributes to perform different middle manager roles, as well as some generic skills. The significant finding? If high performance is to result, the middle management cadre must function as an integrated team of complementary capabilities.

Middle Manager role	Description
Leader	Integrates the IT effort with business purpose and activity
Informed Buyer	Manages the IT sourcing strategy to meet the needs of the business
Business Systems Thinker	Ensures that IT capabilities are envisioned in every business process
Relationship Builder	Gets the business constructively engaged in operational IT issues
Contract Facilitator	Ensures the success of existing contracts for external IT services
Architecture Planner and Designer	Creates the coherent blueprint for a technical platform that responds to present and future needs
Vendor Developer	Identifies the potential added value from IT service suppliers
Contract Monitor	Protects the business's contractual position present and future.
Technical Fixer	Rapidly trouble-shoots problems which are being disowned by others across the technical supply chain

Table 1: Nine Core Back-Office Middle Manager Roles

The Way Forward: Distinctive Outsourcing Roles and Skills

3. Middle Managers Secure Relationship Chemistry

In outsourcing, relationships have to be established both within and across the client and supplier organization, and at every level.

Middle managers – their skills and experiences – become essential.

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 deal 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 ten year-relationship.

Some middle manager types are definitely unhelpful. For example, on the client side some clients are far too passive or over-dependent on the supplier. One variant here is the client who forces the supplier to make all the decisions. Others manage what is most familiar, and may well get involved in its technical detail, rather than accepting the broader management remit needed. Some define themselves as administrators, seeing their role as passive processing, dissemination and filing.

Others see the supplier as untrustworthy and to blame for most things that go wrong in the deal. This can breed adversarial behaviour amongst all parties, over time and can become a self-fulfilling prophecy.

On the supplier side, including in offshore outsourcing, there are other dysfunctional role types. Some focus entirely on profit, no matter what was agreed, or over-focus on selling new work, rather than delivering what is actually in the contract. Some are the polar opposite and are willing to deliver whatever the client insists on, and may well be at odds with their own management as a result. Others have those who block changes and want to reduce everything to routine; and those who are waiting to be caught out and see quick apology as their main weapon (in outsourcing it is not a sustainable one).

The Way Forward: Distinctive Outsourcing Roles and Skills

There are more positive role models emerging from The Outsourcing Unit research studies¹³. What makes the chemistry work? The research found six underlying attributes that combine in these positive roles across both parties to the deal:

monitoring and protecting - ensuring the organization is protected, risks are addressed, and compliance is comprehensive.

facilitation and problem solving – making things happen, breaking down barriers.

organizing by planning processes - maintaining records, audit trails and controls.

relationship development – facilitating trust, respect and interpersonal relationships.

entrepreneurship – seeking innovation, better ways of doing things and leveraging the long term potential inherent in the relationship.

scanning - people well networked and connected, are natural explorers, know the details of other agreements and relationships, and are natural benchmarkers on issues such as practices, costs, risks, and contract clauses.

While no one middle manager could take on all these roles, an internal or cross-organizational team can and must if high performance is to be achieved.

¹³ Cullen, S. (2007) Relationship Team Chemistry: Are The Individuals In The Parties Well Suited? Draft Internal Working Paper from the author. Also Willcocks, L., Cullen, S. and Craig, A. (2010) The Outsourcing Enterprise: From Cost Management To Collaborative Innovation. Palgrave, London – forthcoming.

Conclusion

Organizations need to invest in attracting, developing and retaining middle managers who can coordinate, build work knowledge, secure relationships and make change happen. Co-ordinators who are knowledgeable and experienced in the line of business they are managing, are social capitalists and change agents – these form the bedrock of middle management outsourcing capability. Beyond this, suppliers require up to twelve middle manager roles and capabilities, and clients all nine (described in Table 1), if high performance in outsourcing is to be achieved. Middle managers on both sides also have key roles in securing relationship chemistry and driving projects.

The evidence suggests that middle management is no longer a function easily replaced by technology. New roles have been carved out which are multi-dimensional, and key for effective offshore outsourcing and virtual teaming. In a globalising services industry, clients and suppliers alike who treat middle managers as dispensable costs will run into serious delivery problems. Though not high profile, middle managers are a major secret of success and a key resource for modern sourcing of business and IT services in which ever country they are based.

The Research Base

This study draws upon the LSE Outsourcing Unit's 16 year longitudinal case database of 1,200 plus global sourcing IT, BPO and offshoring arrangements studied in-depth from 1993-2009. In particular we use the findings from the 2003-09 research undertaken into offshoring, IT and business process outsourcing. This covers multiple (112) case studies and is represented in Lacity and Willcocks (2009) *Information Systems and Outsourcing: Studies in Theory and Practice* (Palgrave); Oshri, Kotlarsky and Willcocks (2008) *Outsourcing Global Services* (Palgrave) and 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, Philippines, China, Central Europe and many non-BRIC countries. Client organizations are drawn from USA, Western Europe and Australia. They are in major economic sectors, including financial services, energy and utilities, defence and aerospace, retail, telecoms and IT, oil, transportation, government, health care, industrial products and chemicals.

About The Authors

Professor Leslie Willcocks is Professor of Technology Work and Globalization at London School of Economics and Political Science, in the Department of Management, where he is Head of the Information Systems and Innovation Group and Director of the Outsourcing Unit. He is internationally recognized for his research and advisory work on global sourcing, organizational change and IT strategy and implementation. He has published 32 books and over 180 refereed journal papers in journals such as *Harvard Business Review*, *Sloan Management Review*, *Journal of Management Studies*, *Journal of Strategic Information Systems* and *MISQ Executive*, and has advised numerous corporations and government agencies around the world.

Catherine Griffiths is co-founder and Business Development Manager of the Outsourcing Unit at LSE. 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. At Imperial College, London 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, London.