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Outsourcing itself is not a quick fix but represents a different way of managing

THE OUTSOURCING ENTERPRISE
OUTSOURCING IN DIFFICULT TIMES: RELEASING COST BUT MAINTAINING CONTROL

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Introduction

Outsourcing is concerned with leveraging the distinctive and evolving capabilities provided by the external services market to achieve business advantage.

This concept of outsourcing as a strategic sourcing tool applies in a downturn, and in recessionary times, as much as in periods of economic growth.

In the last economic downturn between 2000 and 2003, outsourcing growth did not slow significantly. Corporates got lucky. Just as IT expenditures had to slow after the heady over-investing of the e-business bubble years, and as business slowed too in most sectors, the global services market produced two genuine safety valves to the downward pressure on costs in the form of increased offshoring (either as outsourced or captive) and the growth of business process outsourcing. And these standbys are still with us, though more matured, more globalised, and facing much more straightened circumstances this time. Our view is that the wise executive will leverage offshoring and business process outsourcing vigorously in the next few years, not least as ways of managing through a recession that is likely to be with us until at least early 2011. On the positive side also, as we entered 2009, most suppliers had spent the last few years driving down their cost base through standardisation, and developing more efficient processes and technology platforms, whether on a national, regional or global basis. Suppliers have also become more sophisticated in their ability to provide better and longer term financing, asset transfer and lease-back possibilities, though the 2008-9 financial turmoil may erode some confidence around terms, stability and future prospects here.

The big question is: how can client organisations manage their sourcing strategy to harness such service market strengths in ways that look after shorter term recessionary exigencies, while positioning themselves advantageously for any sectoral, or larger, economic upturn? In this paper we firstly comment on initial corporate responses to current difficult times, and outsourcing's role in this, assess the implications of approaches adopted in the last downturn, then show how to steer a course through present circumstances.

This time it hurts

Between mid-2008 and early 2009 our on-going research projects uncovered a range of client behaviours, only some of which were exhibited in previous economic downturns.

The shock of the credit crunch and its aftermath has seen many clients firstly pausing - either for reflection, or just stunned - expressed in deferring project decisions, bringing more work in-house, and delaying decisions to commit to new contracts, for example. A strong cost reduction motif has also been apparent, seen in deferring and reducing work in current contracts, negotiating down rates in current outsourcing arrangements, looking for dramatic cost cuts in new contracts; looking to reduce the number of independent contractors; reducing the number of suppliers; and looking to offshoring destinations for either cheaper captive or outsourced services. At the same time, some organisations are seeing the opportunity to restructure their IT ecosystems to drive through major changes to re-align total cost of ownership with IT delivery[1]. Clients have also been looking for better and longer term financing, and asset transfer deals as part of their outsourcing arrangements. On one scenario we will see a number of quick and relatively dirty outsourcing arrangements arrived at that will need to be unravelled at a later date. But sectors have been responding differently with the more hard-hit main-line banks, for example, pausing in 2008, then many looking to increase expenditure into 2009 on banking-specific and finance and accounting BPO as well as applications outsourcing[2]. One view is that once organisations have stabilised their financial positions and undertaken sourcing reviews, they will do more BPO – to cut costs, shift risks, secure more mature services from the developing services market, and get support for revenue generation. In other words in a recession, BPO will be useful in being able to address business needs that go much further than just cost reduction[3].

All this has influenced some of the observed behaviours of suppliers. From mid-2008 we have been talking to 15 major suppliers about their plans and experiences. They have needed to be sharper than ever on internal cost control, and many have made strong pushes on standardisation and financial planning (including for clients), and also on innovation that plays into clients' short and long term challenges. Some have offered cheap, even cost-free, transition phases to clients for signing contracts quicker. IT and BPO service companies have been hurrying to build and exploit global delivery resources that are cheap, scalable and flexible. Many have been offering finance options for projects, have been seeking to act as service aggregators, or be deep partners with IT leader firms, and emphasise these deep relationships to clients. Still others are putting emphasis on demonstrating to clients the business impact of the IT or business service provided.

1 See Oshri, I., Kotlarsky, J. and Willcocks, L. (2008) Outsourcing Global Services. Palgrave, London

2 Willmott, J. (2008) BPO Opportunities in Banking During 2009. Nelson Hall, London

3 Willmott, J. (2008) BPO Perspective October 2008. Nelson Hall, London. Also Willcocks, L. and Lacity, M. (2009) The Practice of Outsourcing: From IT to BPO and Offshoring. Palgrave, London especially chapter 1.

As the recession lengthens and deepens, expect that an increasing number of deals will get cancelled where clients cease to exist, or where mergers and acquisitions change requirements. At the same time outsourcing is as likely to grow in a recession as it is in time of economic upturn, even though the terms of trade will be different, and the objectives pursued by the client may well have quite different emphases – that could themselves change quite quickly across the course of the deal. More outsourcing service arrangements will get financing as clients fight to keep their cash. Clients will show in their outsourcing practices a strong focus on converting fixed to variable costs and avoiding the higher cost of money. Suppliers will offer not just hardware financing but flexible billing and payment options for project work. Asset and software licence transfers are likely to be seen as attractive ways of keeping cash, while rental extended to a range of services, including application services as sale and lease back programmes, is likely to emerge strongly. One can also anticipate a quickening of mergers and acquisitions amongst suppliers. Also within clients an acceleration in the reduction of the number of relationships, together with a streamlining of internal headcount and processes for sourcing management and governance.

These are all pragmatic outsourcing responses to the problem of corporate survival in recessionary times. However, it is important that such practices are not isolated and short-term, but form part of a more strategic sourcing approach to dealing with the next three to five years. What might this look like? We would suggest four key components – develop dynamic strategy; leverage relationships with suppliers; harness the potential of offshoring and BPO; and retain key capabilities.

Learn from last time: develop dynamic strategy

If we just focus on IT for the moment, the 2000-2003 economic downturn saw IT managed in four main ways.

In their excellent paper on the subject Leidner et al (2003)[4] found each CIO tending to take one predominant approach. Nearly half retained their existing long-term IT plans, but stretched out the timeline for development and implementation. This reduced development costs, while continuing to move forward with important applications. A quarter of the CIOs reconsidered the existing IT plan and focused on projects designed to 'bullet-proof' the infrastructure. This prepared the IT infrastructure for the next economic growth phase, so that 'plug and play' applications could be quickly implemented and integrated.

The remaining CIOs had a more short-term perspective. Some suspended the existing IT plan, assuming continuation once the economy started to recover. These focused on extending the life of legacy systems, using the fewest IT and people resources possible to maintain current service levels until funding became available to move forward with planned applications. Others used the downturn to radically re-evaluate existing and planned applications, and eliminated projects that were inconsistent with the firm's short-term business goals, thereby regaining control over application development and implementation.

One can see here those taking a longer term perspective assuming, while those taking a shorter term perspective merely hoping for a short period of decline. In practice, as the economic decline deepened and efforts to reduce IT expenditures did not suffice, some of those with a longer term perspective moved increasingly to the short-termism of cancelling plans, then focusing on extending the life of legacy systems.

We can learn from these experiences, but have to accept first that this time it is different. The present recession is already deeper and will last longer than 2000-2003. It also has different causes and will be more difficult to turn around. How then to steer a course? Building on Leidner et al. (2003), we would suggest four main responses (see Figure 1):

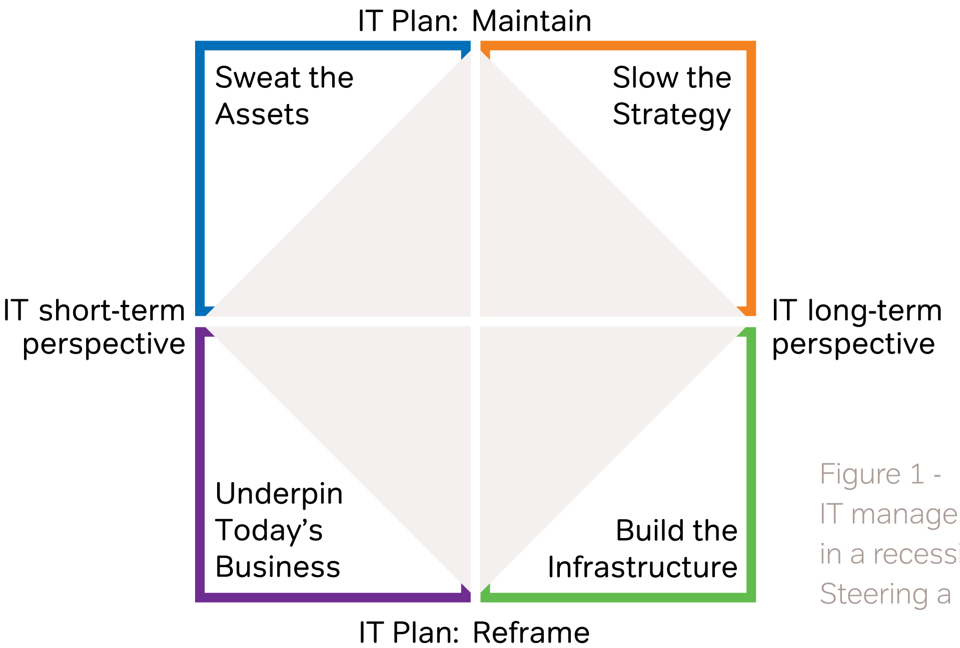

Figure 1 - IT management in a recession: Steering a course

4 Leidner, D., Beatty, R. and Mackay, J. (2003) How CIOs Manage IT During Economic Decline: Surviving and Thriving Amid Uncertainty. MISQ Executive, 2, 1, 1-14

SHORT-TERM

'Sweat the assets' – Prolong life of legacy to survive recession. Shelve infrastructure investments. Cancel new applications portfolio, but support and maintain existing applications Make large headcount reductions. Focus IT and outsourcing on costefficiency and legacy alerts.

'Underpin today's business' – Applications with quick business 'wins' sought. Support current, changeable business plans with IT. Reintroduce cost disciplines lost in growth period. Large cost savings from clear focus. Outsourcing focus on speed of delivery, cost, use of external resources, applications development and maintenance.

LONG-TERM

'Slow the (IT) strategy' – Confidence in 3-5 year plans but slow the speed of delivery and review bi-annually. Maintain strategic investments. Balance cost savings with investment for the upturn. Outsourcing focus on more efficient cost-service deals for commodity IT and services, complex and new applications development, acceptance and testing services and infrastructure build.

'Build the infrastructure' – Create a foundation for integration so as to 'plug and play' independent and integrated applications. Focus on infrastructure which will be rewarded in the upturn. Regroup on architecture and IT discipline. Go for standardised and lower priced (in a recession) technology and packages. Focus outsourcing on infrastructure development, standardisation, package supply, and integrating selected extant applications. At the same time rationalising the IT estate for example through enterprise application integration and service oriented architecture, could provide a short to medium term win for companies.

However, this time the use of these approaches has to be dynamic, in combination, and will depend on where a business is in the economic cycle. We studied 26 client organisations in late 2008/early 2009 and found just over half had already anticipated the seriousness of the recession by moving to what is in fact a hybrid approach of 'sweating the assets' while 'underpinning today's business'. This has reversed clients' initial responses of 2000-2003. Nevertheless, we did find firms that were in less trouble in their markets sticking with, if slowing their existing strategic IT plans, and some staying committed to existing plans to building their infrastructure. Unlike Leidner et al. (2003) however, this time we came across no organisations reframing their IT plans in order to start rebuilding their IT infrastructure during the recession. It would seem that now is the time to re-evaluate IT strategy and therefore investment priorities in order to deliver relevant results quickly for business units, rather than priortising re-build of the infrastructure.

Our own view is that over the next three years client organisations need to steer a dynamic course. This would see the four options in Figure 1 as a portfolio of possibilities. The preferred starting point is to 'Slow The Strategy'. The objective here is to balance two major risks – on the one hand not cutting fast enough as revenues go away; and on the other abandoning IT initiatives so quickly that the future is mortgaged. But even in a recession some IT can be cut, using a 'sweat the assets' philosophy, while other IT still needs to be invested in, including that which 'underpins today's business'. Moreover, after a hard look, organisations will find some strategic investments must still be made, including in infrastructure, even if later, when the recession begins to ease. Staying alive to the issues, including the possibility of IT supporting IT operational, business process or even business innovation, is also a way of staying alive as a business.

Leverage suppliers: deeper collaboration, more innovation

Such dynamic strategy must embrace every resource, including leveraging the external services market. All 26 of the organisations we talked to were planning, or already doing this, and all had several major outsourcing contracts.

In practice outsourcing is already extensive – the global ITO market exceeded $US 240 billion in revenues in 2008 and, on a review of estimates, is likely to grow at between 5-8% per annum over the next 4 years (see below for BPO market estimates)[5]. However, how suppliers are leveraged, and for what, matters a great deal.

In an earlier white paper we pointed to the trend of relationships being increasingly leveraged as strategic assets - with more contracting based on values and behaviours, relationship planning becoming more rigorous, and suppliers becoming more entrenched in their clients' business. We noted that suppliers were increasingly being expected to support clients' mainline services, for example identifying new sales and cross-selling opportunities, and becoming a client of the client[6]. We also noted that 'relationship engineering' was becoming more sophisticated. Techniques such as relationship health diagnostics, contract scorecards, team building, developing people and skills for more relationship-orientated roles, were becoming more common.

The recessionary climate is already providing a strong test for the power of existing relationships. Many of the organisations we have been talking to are looking to reduce and consolidate the number of suppliers, focusing on a model that sees several preferred suppliers, each with distinctive capabilities, for example infrastructure, telecoms, application development and support, help-desk, data processing, accounting and finance or human resource BPO. Other suppliers will be pulled in as needed, but the relationship would be on a much more transactional basis.

	POWER-BASED RELATIONSHIP	PARTNERING-BASED RELATIONSHIP
Communication orientation	Coercive and secretive	Collaborative and open
Conflict orientation	Blaming and manipulating	Sharing and learning
Relationship orientation	Short-term gain	Long-term investment
Strategic orientation	Getting more for less	Quality, service, fairness
Values orientation	Independence, self Interest	Inter-dependence, mutual benefit

Source: Cullen and Willcocks, 2003

Figure 2 – Managing in a recession: Relationship choices

5 The figures are from a review of various sources, which appears in Willcocks and Lacity (2009) op. cit. chapter 1.

6 See Willcocks, L. and Cullen, S. (2006) The Outsourcing Enterprise 2 – The Power of Relationships. Logica, London

Figure 2 captures the possibilities. It suggests that the power-based transactional type of contract and relationship - which many organisations will get sucked into during a recession - can only get you so far. So does screwing supplier margins down to a threadbare level. The 'Winner's Curse' can then arise for a supplier. But as we demonstrated in an earlier paper, if suppliers do not make margins, their miserable time in most cases translates into clients also having bad experiences. 'Win-Lose' for the client converts into 'Lose-Lose' for both relatively quickly[7]. For the organisations we have been talking to recently, where they have made long-term prior investments in supplier relationships, these seem to be paying off in the recession – at least so far. These organisations tend to be quite mature in their ability to manage outsourcing, being in their second or third generation, and having undergone hard learning from the 1990s onwards. Relationships with strategic suppliers tend to be much more collaborative, reflected in the 'partnering-based' practices shown in Figure 2. However, it should be emphasised that these are conducted by both client and supplier as hard-nosed, commercial relationships. In our most recent work we have also noted the more mature clients leveraging what we might call this 'collaborative capital' to go for IT operational, business process and, in some cases market innovation. Examples include Statoil Hydro, Michelin, Vodafone, and KPN. And their executives believe that tough times will need more innovation, not less[8].

All this becomes possible provided that suppliers have the requisite capabilities. Our previous study[9] argued that it is fundamental to sourcing strategy that a client understand both the capabilities and incapabilities of suppliers, because this shapes expectations and renders decisions on supplier utilisation realistic. Delivery competency of a supplier is expressed as its ability to respond to a customer's day-today operational needs. It is a minimum requirement of a supplier to compete for business, but may become easily eroded in a recession. Check out their capabilities in leadership, business management, domain expertise, governance, behaviour management, sourcing and programme management. Relationship competency is based on the supplier's capacity and willingness to align itself with the customer's values, goals and needs. Planning and contracting, customer development and organisational design capabilities are needed here as well as leadership, governance and programme management. Finally, if a client has a transformation agenda to deliver radically improved services, or change an entire function - e.g. IT, HR, Procurement - then a supplier can seriously help only if it has process improvement and technology exploitation capabilities, as well those of leadership, behaviour management, sourcing, programme management and customer development[10]. In difficult times these requirements of a supplier become ever more pressing and relevant.

7 See Willcocks, L., Cullen, S. and Lacity, M. (2007) The Outsourcing Enterprise 3 – The CEO Guide To Selecting Effective Suppliers. Logica, London. We studied 84 deals, 20% were subject to the winner's curse, and 75% of these were very poor experiences for both client and supplier. See Kern, T., Willcocks, L. and van Heck, E. (2002) The Winner's Curse In IT Outsourcing: Strategies For Avoiding Relational Trauma. California Management Review, 44, 2, 47-69.

8 This study on collaborative innovation will be completed later in 2009.

9 See Willcocks, L., Cullen, S. and Lacity, M. (2007) The Outsourcing Enterprise 3 – The CEO Guide To Selecting Effective Suppliers. Logica, London.

10 See also Feeny, D., Lacity, M. and Willcocks, L. (2005) Taking A Measure of Outsourcing Providers. Sloan Management Review, April.

Release the pressure with BPO and offshoring

Finally, outsourcing is not a goal in itself but a management technique to achieve a wide range of business goals. Whether outsourcing is achieving these goals needs to be firmly monitored and kept on track.

In some ways, business process outsourcing has had a false start. The potential for radically improving back-office functions has been massive, but a combination of customer reluctance, internal politics and immature capabilities on the supply side slowed take-up between 1999-2005. However, greater competition and maturity in the supply market together with improved buying capabilities in more organisations, and economic disciplines imposed by recession now combine to make BPO a strong candidate for growth over the next three years, if clients only grasp the opportunity.

The BPO market in 2008 was less than the ITO market, but growing at a faster rate. We estimate that the market for mainstream BPO expenditure is likely to grow worldwide by 10% to 15% a year from $140 billion in 2005 to potentially $350 billion by 2010. BPO expenditure will be in areas such as the human resource function, procurement, back office administration, call centres, legal, finance and accounting, customer facing operations and asset management. BPO is outpacing ITO because many executives recognise that they under-manage their back offices, and do not wish to invest in back office innovations. Suppliers are rapidly building capabilities to reap the benefits from improving inefficient processes and functions. IT provides major underpinning for, and payoff from, reformed business processes. Thus, many of the BPO deals will swallow much of the back office IT systems. This is also evidenced by the shift in strategy of traditional IT suppliers like IBM, HP, and EDS to provide more business process services. Suppliers will increasingly replace clients' disparate back office IT systems with web-enabled, self-serve portals.

The other lever there to be pulled in the current difficult times is offshoring (either in captive or outsourcing form). And indeed the majority of organisations we have been talking to see more offshoring as very much on their agendas over the next 3-5 years. The global offshore outsourcing market for IT and business services exceeded $US55 billion[11] in 2008 and some estimates posit an annual growth rate of 20% over the next five years, indicating a continuing take-up through the recession. It is common to talk of Brazil, Russia, India and China as the BRIC inheritors of globalisation, with India in particular positing some 65% of the ITO and 43% of the BPO market in 2008[12]. However, the BRIC countries are not without their problems with Brazil, and China hardly leveraging their potential. Russia lacks government support and is being led into highvalue but niche work, while India and China may even be seen turning to non-BRIC locations for some of the solutions, for example to secure low cost and labour availability.

Our recent study[13] suggests a range of second and third tier offshoring venues preparing for business expansion that the recession may well accelerate rather than retard. Recession-bound organisations keen on new sources of value on cost and service may well look here. Where they do so, 'near-shoring' is likely to figure strongly. Compared to offshore outsourcing, the benefits of nearshoring include less travel costs, less time zone differences, and closer cultural compatibility. Distance still matters, and customers can choose the nearshore option to gain benefit from one or more of the following constructs of proximity: geographic, temporal, cultural, linguistic, economic, political, and historical linkages[14]. Three major global 'nearshore clusters' are based around clients in a) North America, b) Western Europe and c) a smaller cluster in East Asia.

11 All financial figures are in US Dollars unless otherwise stated.

12 Willcocks and Lacity (2009) The Practice of Outsourcing: From ITO to BPO and Offshoring (Palgrave, London forthcoming). The figure is based on various sources, and reflects the more conservative of the estimates given.

13 Willcocks, L., Griffiths, C. and Kotlarsky, J. (2009) Beyond BRIC – Offshoring in Non-BRIC Countries: Egypt a New Growth Market. Hill and Knowlton/LSE, London March

14 Carmel and Abbott (2007) Why 'Nearshore' Means That Distance Still Matters. Communications of the ACM, 50(10), pp. 40-46.

Many US clients already use Central American suppliers for Spanish-speaking business processes like help desks, patient scheduling, and data entry. In Western Europe, organisations are increasingly sourcing IT and businesses services to providers located in Eastern Europe. Within these countries there is some movement of outsourcing work to lower cost cities (a trend noticeable in many countries including for example India, China, and rural sourcing in the USA). In sub-Saharan Africa, several countries are actively seeking to become players in the global ITO and BPO markets and building their economies partly on IT. Mediterranean North Africa already exports IT services to Europe and the Middle East. In our study of 14 non-BRIC countries Egypt particularly emerged as top on cost, skills, and market potential[15].

If the offshoring option is available, it also needs to be approached with care. Clearly the supplier capability analysis outlined above needs to be carried out. But a client can also apply a sixfold framework we have defined to assess location attractiveness, and it has proven very useful[16]:

- Cost – labour, infrastructure, taxes
- Skills – skill pool, vendor landscape
- Environment – government support, business environment, living environment, accessibility
- Quality of infrastructure – telecoms and IT, real estate, transportation
- Risk profile – security, disruptive events, macroeconomic risks, intellectual property risk
- Market potential – captive using local resources, outsourced to local supplier, or as outsourcing supplier to local/regional market.

Our own analysis of non-BRIC countries looking to break free from the pack shows many creating new and profitable outsourcing and offshoring opportunities, capable of development and exploitation even in recessionary times. Their ability to deliver on the opportunities and deal with the related challenges will serve as a foundation for moving further up the value chain, for example in some cases from mainly call centre work to software development and effective R&D. IT and skilled labour shortages in client and supplier companies in Western Europe, North America and BRIC countries, represent both real opportunities and a set of strong challenges to non-BRIC countries. They point to the need for long term strategy and investment in education and training, together with attractive employment conditions to draw in and retain skilled labour. The larger issues of environment, risk and legal conformity are driven and policed by governments and this determines the levels of confidence that businesses have to invest. The non-BRIC countries that have provided these are attracting more complex and longer term offshoring and outsourcing contracts.

15 The other counties were selected to represent all main global regions. The countries are Belarus, Bulgaria, Costa Rica, Czech republic, Egypt, Mexico, Morocco, Philippines, Poland, Romania, Slovakia, Tunisia, Venezuela and Vietnam.

16 Details of the framework and examples of its application appear in Willcocks, Griffiths and Kotlarsky (2009) op. cit.

Retain key capabilities

Finally, in uncertain, pressured times, a major danger is erosion of the key in-house capabilities that allow an organisation to keep control of its IT and BPO sourcing destiny...

... while ensuring flexibility and responsiveness in the face of inevitably changing conditions and requirements. In late 2008 we were already seeing organisations cut their workforces by 10-20%, with little consideration for the specifics of the skills and capabilities going out of the door. The desire to cut the headcount budget is understandable, but this should never be at the expense of hollowing out an organisation's capability to operate on core tasks. We have seen some organisations then declare recruitment freezes, and shift spending into the outsourcing budget to render a fixed labour cost more flexible.

Our strong finding over 17 years of monitoring, and working in, the outsourcing field, is that retaining key capabilities staffed with high performers with distinctive, specific skills sets, is the single biggest influence on the levels of success achieved. We have also found, historically, that retaining such capabilities has been the single most neglected area in sourcing practice. There has been much progress in this area, as we indicated in our recent study[17]. The worry is that recessionary conditions will cause organisations to regress, and so lose control of their outsourcing arrangements precisely when this can do them most damage. This would be unfortunate at a time when IT functions need to upgrade their skills if they are to interact better with business owners and deliver on the 'Slow The Strategy' and 'Underpin Today's Business' agendas required in the recessionary climate.

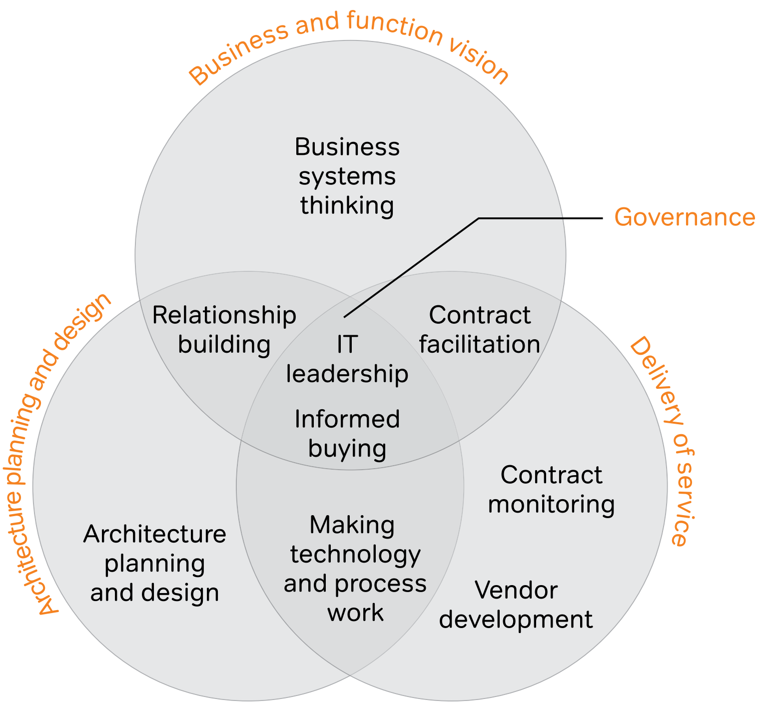

Figure 3 – Core capabilities framework for high performing IT and back-office functions

17 See Willcocks, L. and Craig, A. (2008) The Outsourcing Enterprise 4 – Building Core Retained Capabilities. Logica, London.

Our work demonstrates the need for nine core capabilities to be retained if the IT or any back-office function is outsourced. (project management is a core organisational rather than a specific back-office capability) These are shown in Figure 3. As can be seen, these fulfil four vital in-house functions:

- Governance – providing leadership and coordination
- Business and function vision – eliciting and delivering on business requirements
- Architecture planning and design – ensuring technical capability
- Delivery of service – managing external supply

Moreover, each retained capability needs to be staffed by people with a distinctive mix of business, interpersonal and technical skills and with specific motivating values (see Figure 4).

Core IT capability	SKILLS			Time horizons	Motivating values
	Business	Technical	Interpersonal		
IT leadership	high	medium	high	future/present	• strategy • structure • individuals
Business systems thinking	high	medium	medium	future	• strategy
Relationship building	medium	high	high	present	• structure • individuals
Architecture planning and design	low-medium	high	medium	future	• technology
Making technology and process work	low	high	low-medium	present	• technology
Informed buying	high	medium	high	future/present	• strategy • structure
Contract facilitation	medium	medium	high	present	• structure • individuals
Contract monitoring	medium	medium	low-medium	future	• structure
Vendor development	high	medium	medium-high	future	• strategy • individuals

Figure 4 – Retained capabilities: Skills, orientations and time horizons

The attraction and retention of such people presents real challenges, especially in a recessionary climate. But not investing in such retained capability has time and again been found to create much bigger problems further down the line. Outsourcing on anything like a sizable scale, that involves multiple suppliers, some of which might well be near- or off-shore, is best seen as representing a radical change in the way management is done, rather than as a handing over of management to suppliers to deliver results which are merely monitored. Low spenders on core capabilities perform what we call contract administration. This may just about work where the outsourced activities are simple to define, discrete and easy to monitor. For all other outsourcing situations contract administration leads slowly and ultimately to an expensive erosion of control over the organisation IT or back-office destiny. organisations are already are finding more than enough problems to deal with in the current recession. The essential question is: why choose to create additional ones that, over time, become much more difficult and expensive to solve?

Conclusion

It is likely that the global economic recession will deepen and only pick up around early 2011. The key question for clients is the same as it ever was, namely how to leverage the ever expanding services market for significant business advantage.

We have researched and participated in the outsourcing phenomenon since 1992. The common denominator in our own findings is that there is no quick fix; not in periods of growth nor in periods of economic decline. Outsourcing itself is not a quick fix but represents a different way of managing.

Much depends on experiential learning and sheer hard work. Back office executives must conquer a significant learning curve and build key in-house capabilities in order to successfully exploit outsourcing opportunities. They need to accept that outsourcing is not about giving up management but managing in a different way.

Getting the perennials right is an essential part of surviving, even thriving, in difficult times. Our four papers in the Outsourcing Enterprise series have discussed in detail the management foundations for effective outsourcing. In this paper we provide additional ideas for steering a course through the present difficult times. We expect ITO and BPO to grow in the recession. Maturing capability amongst both client and suppliers make outsourcing an important strategic tool for coping with the recession's challenges and uncertainties. We can only learn a little from the last period of economic decline. This time it is going to really hurt.

So executives need to:

- Develop a dynamic strategy with business, sourcing and IT objectives and actions closely linked
- Leverage suppliers through collaboration and look for innovation as well as cost reduction opportunities
- Reduce the pressure through more BPO and Offshoring

But above all they must not lose control of their outsourcing arrangements. That would be steering a course to the wrong place altogether.

The research bases

This paper draws upon research conducted by the authors between August 2008 and January 2009. We studied 26 client organisations, and interviewed 15 suppliers concerning their plans and experiences.

In total we interviewed 56 executives. Additionally we draw upon our long-standing research on global sourcing, collected in a range of research bases and covering two previous recessions.

This work is represented in Lacity, M. and Willcocks, L. (2001) Global IT Outsourcing: In Search Of Business Advantage (Wiley, Chichester); Kern, T. and Willcocks, L. (2001) The Relationship Advantage (OUP, Oxford); Willcocks, L. and Lacity M. (2006) Global Sourcing of Business and IT Services (Palgrave, London); Lacity, M. and Willcocks, L. (2009) Information Systems and Outsourcing: Studies in Theory and Practice (Palgrave, London) and Willcocks, L. and Lacity, M. (2009) The Practice of Outsourcing: From ITO to BPO and Offshoring (Palgrave, forthcoming)

Combined, this work forms an unrivalled 680 plus case research base held by the researchers at LSE, Melbourne and Missouri, St. Louis Universities. (Including survey work the research base represents data from 1,600 plus organisations) The research base covers all major economic and government sectors, including financial services, energy and utilities, defence/aerospace, retail, telecoms and IT, oil, transportation, central, state and local government, health care, industrial products and chemicals, and is drawn from medium, large and multinational organisations based in Europe, USA and Asia Pacific.

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http://outsourcingunit.org/index.html

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Logica is a business and technology service company, employing 39,000 people. It provides business consulting, systems integration and outsourcing to clients around the world, including many of Europe's largest businesses. Logica creates value for clients by successfully integrating people, business and technology. It is committed to long term collaboration, applying insight to create innovative answers to clients' business needs. Logica is listed on both the London Stock Exchange and Euronext (Amsterdam) (LSE: LOG; Euronext: LOG). More information is available at www.logica.com

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