



A Russell Reynolds Associates Series

**Leadership for a Changing World.** Articles in our *Leadership & Talent* series address key issues companies face in creating effective talent management strategies—to identify, develop and retain successful leaders and leadership teams.

# Leading the transformation in global outsourcing: building the right executive team

The global outsourcing industry is beginning a new chapter in its relatively short history—one defined by increased opportunity, competition and client expectations. Market success in this winner-take-all environment will go to the firms with strong global leadership teams, agile cultures and a clear plan for transformation. In this issue, Pravesh Mehra, Puneet Kalra and the Business and Professional Services team at Russell Reynolds Associates outline the capabilities and organizational culture firms will need to succeed and provide a road map for the leaders who must guide the process.

Few business sectors have evolved as quickly as the global outsourcing industry. Ten years ago, outsourcing was seen as a back-room commodity business, barely considered an industry in its own right. Its entire value proposition was built on the differential in the cost of talent between developed and emerging countries (primarily India).

But much has changed over the last decade. Today, the major Indian outsourcing companies such as Infosys, TCS, Wipro and Cognizant have built strong relationships with global clients and have created brand identities that approach those of Fortune 500 companies. They have moved beyond cost-based staff augmentation services and now take on responsibility for complex multi-year projects, provided to their clients through a global delivery network spanning China, the Philippines, Brazil



and Eastern Europe. This evolution has propelled total outsourcing revenue for India from \$2 billion in

1998 to nearly \$60 billion in 2010, a compounded annual growth rate of more than 30 percent.

## Continued opportunity—and increased competition

The question is whether global outsourcing firms will be able to ride the wave—and the competitive landscape—they have created, particularly since all signs point to continued growth in the sector. Some Indian IT outsourcing firms, for example, are forecasting a greater than four-fold increase in staffing demand for 2011 to accommodate post-recession demand.<sup>1</sup> Such a projection is consistent with a number of key indicators:

- **Outsourcing still captures a relatively small percentage of overall IT spending**—the main driver of outsourcing revenue—and those IT budgets are growing at 7 percent annually.
- **A new generation of technologies**, such as cloud computing and mobile solutions, will prompt the migration of technology to new platforms and infrastructure.
- **Regulatory developments** in financial services and healthcare will fuel increased investment in technology solutions.
- **Companies are becoming more aggressive** in identifying functions that can be performed independently of business location and thus are candidates for outsourcing.

- **Finally, many governments will outsource non-essential tasks** in an effort to trim budgets in an age of spending limits.<sup>2</sup>

Client expectations are evolving as well. Clients are preferring to work with a small, select group of providers that can deeply integrate with their operations rather than with multiple individual vendors, an arrangement that can bring substantial coordination costs. Clients want “strategic engagements and partnerships and not casual engagements,” Suresh Vaswani, Wipro’s former Joint Chief Executive Officer for IT Business, said in a recently published interview. As a result, “The big game [for outsourcing companies] is beyond the margins and revenue growth. It is partnering with customers. You must have the capabilities, which make the customers see you as long-term partners.”<sup>3</sup> In exchange for these more extensive relationships, clients are demanding deep industry and domain knowledge, forcing service providers to increase their consulting and operating capabilities to stay relevant. This continued growth will be a boon—but it also will fuel competition as those in the arena seek a larger share of the spoils. Consider the following developments:

- **Large technology companies are rapidly expanding their service capabilities** through multibillion-dollar acquisitions (i.e., Hewlett-Packard/EDS, Dell/Perot Systems and Xerox/ACS Inc.).
- **Accenture and IBM Global Services** have built large business process outsourcing organizations to compete with pure players like Genpact, Convergys and ADP and have quickly reached multibillion-dollar revenue levels.
- **Indian companies have countered with a number of mid-market acquisitions**, the most notable being HCL’s acquisition of U.K.-based Axon.
- **Big U.S. accounting firms all are re-entering the consultancy business** and are aggressively building practices and making acquisitions.
- **Mega-mergers of U.S. compensation and benefits companies** such as Towers Watson and Aon Hewitt have changed the landscape of human resource process outsourcing.

In the face of this marshaling of forces, technology services and outsourcing firms are about to find themselves tested by a new level of global competition. The winners will be those that fully

<sup>1</sup> “We are Hiring’ says Indian IT,” *SiliconIndia*, October 11, 2010.

<sup>2</sup> “Outsourcing sector recruitment will increase when government wields the axe,” *ComputerWeekly.com*, October 14, 2010.

<sup>3</sup> “Wipro keen to be strategic partners with customers,” *The Hindu Business Line*, August 23, 2010.

step out from the back office to become global, sophisticated enterprises that are a source of business process innovation. Precisely because this evolution requires navigating new territory, success or failure will depend less on technology or capital than it will on the capabilities and culture of the organization and the skills and cohesion of the senior management team. The global outsourcing industry will provide one of the first sustained examples of direct competition between Indian and Western firms over the same global senior talent pool.<sup>4</sup>

To complicate matters, there also will be competition among firms in emerging markets. At HCL's recent company-wide town hall meeting, the conversation focused not just on Western competitors but on those from China as well. Vineet Nayar, HCL's CEO, suggested that the rise in Indian wages soon would make China the world's leading source of low-priced technical talent.<sup>5</sup>

## Building the organization of the future

In order to succeed in this new environment, outsourcing firms must incorporate new capabilities into their organizations. In some cases, these key positions will evolve out of current ones; in others, they will have to be created from scratch, but, in both cases, this change will challenge the paradigms of hiring, performance

management and organizational power distribution. Firms that are successful in recruiting, retaining and developing these executives will be halfway to winning the contest ahead:

- **Industry and solution experts** will be needed to design the long-term, industry-specific, strategic solutions clients will need and then to build the appropriate market offerings.
- **Global consulting practices** will need to be established to provide true business solutions—not just the technology—that transform client businesses.
- **Teams of business development specialists**, with a network of C-level relationships and a track record of rainmaking, will be needed to structure, negotiate and close complex multiyear contracts in a time of “all or nothing” client-provider relationships.
- **Global account executives** will be needed to build and manage global client relationships at the executive level, engage clients on their strategic concerns, and leverage successes across units and geographies.
- **Corporate development leaders** must manage growth strategy through the organization's investments and its merger

and acquisition strategy and ensure that the benefits of acquisition are realized through effective integration.

- **Business unit leaders** must go beyond revenue to deliver operating profit for the business while managing the complex matrix structure that crosses industries and solutions.
- **Project and program executives** must execute from multiple delivery centers and deliver high quality and required profit margins while managing the cultural issues associated with differing geographies.
- **Alliance executives** must work more closely with hardware and software partners to understand the impact of emerging technologies on their clients' businesses and incorporate that into end-to-end solutions.

While Indian firms have shown they can do more than hold their own in recruiting and retaining talent, they cannot overlook the fact that Western firms have deeper experience in building and leveraging senior-level human capital in global industries. As a result, outsourcing firms in India and other emerging markets must thoroughly assess their recruiting and development functions as they prepare to compete at the highest

<sup>4</sup> For more on this topic, see “The war for talent in India heats up: Indian organizations take on the foreign multinationals,” Russell Reynolds Associates' *Leadership & Talent* series, Issue 6, 2010.

<sup>5</sup> “China to overtake India as world's biggest supplier of cheap IT talent in 5 years: Vineet Nayar,” *Daily News & Analysis*, October 13, 2010.

global levels. At the same time, U.S.-based firms must undertake a thorough review of their own talent function as well to ensure that it is fully prepared for the challenges ahead.

### Creating an agile culture

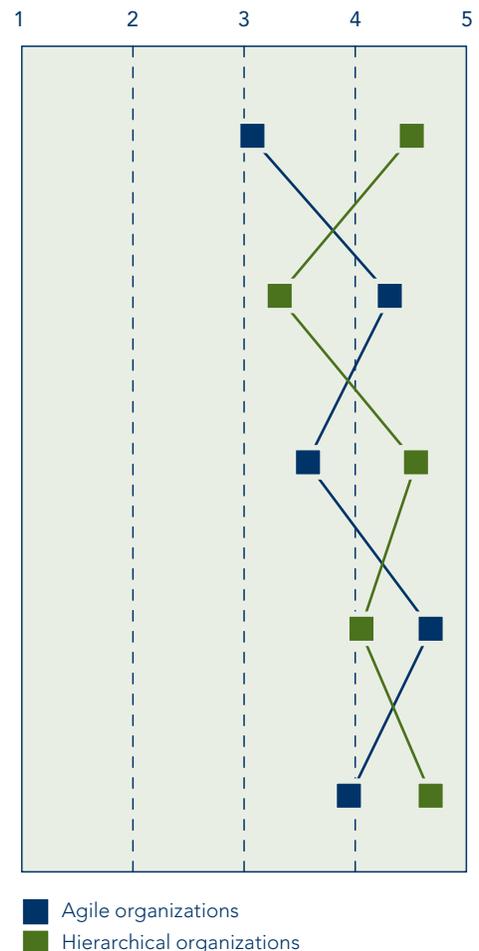
Having the above capabilities will give firms the resources necessary for transformation, but those resources will not be sufficient on their own. Firms also must adopt the appropriate culture—that is, a collective set of values and priorities to guide their day-to-day actions—to ensure that the changes they implement become

permanent. The challenges facing outsourcing firms—client needs that evolve unpredictably, technologies and platforms that undergo rapid turnover, and global labor pools that shift in response to new skill sets and supply-and-demand dynamics—call for an agile culture. Agile organizations have several defining characteristics. They have the ability to continually mutate and self-organize based on developing events. They place a premium on knowledge management. They reward creative thinking and appropriate risk taking. And they are governed more by principles than by rules.

But this begs a critical question: How does one know if one has an agile organizational culture, and, if not, how does the current culture need to be changed so that one does? Organizational culture can be quantified and assessed across specific dimensions to identify the distinct combination of core values that drive behaviors within the organization. Different types of cultures have different “fingerprints,” scoring higher or lower on various cultural measures. An agile culture typically is characterized by the blue data points in Figure 1.

**Figure 1: Five dimensions of culture**

<b>Discipline</b>	Rigor involved in day-to-day functioning, including: <ul style="list-style-type: none"> <li>• Rules orientation</li> <li>• Timeliness</li> <li>• Detail/thoroughness</li> <li>• Awareness of limitations</li> </ul>
<b>Openness</b>	Openness to people, thoughts and ideas such as: <ul style="list-style-type: none"> <li>• Interest in true debate</li> <li>• Diversity/multicultural orientation</li> <li>• Transparency</li> <li>• Involvement/matrix orientation</li> </ul>
<b>Strategic orientation</b>	Orientation toward strategic areas such as: <ul style="list-style-type: none"> <li>• Innovation</li> <li>• Emphasis on top-line growth</li> <li>• Customer/client orientation</li> <li>• Global orientation</li> </ul>
<b>Performance orientation</b>	Emphasis placed on high-performance areas such as: <ul style="list-style-type: none"> <li>• Results</li> <li>• Urgency/speed</li> <li>• Expertise</li> <li>• Quality</li> </ul>
<b>Relationships</b>	Strong interpersonal skills, including: <ul style="list-style-type: none"> <li>• Teamwork/collaboration</li> <li>• Matrix management</li> <li>• Enthusiasm that motivates others</li> <li>• Interpersonal respect</li> </ul>



Because agile enterprises are less constrained by rules orientation and other perspectives characteristic of traditional, hierarchical organizations, they get only middling scores on *Discipline* measures. Instead, they rely on a sense of urgency and focus on results, which gives them a high score on *Performance orientation*. Their emphasis on communication, transparency and involvement across the organization gives them high marks for *Openness* as well. These organizations are somewhat less focused on *Relationships*—there is less of an emphasis on personal communication and bonding outside of work—and on *Strategic orientation* due to the lower priority placed on long-term planning.

With this profile as a benchmark, it then is possible through a combination of online surveys and diagnostic interviews to assess an organization's current culture using the same scorecard. From there, a gap analysis will show how the firm's current culture must change so that it becomes an agile organization. The mandate of the firm's senior leadership then can be adjusted to reflect the specific challenges that must be addressed in that transformation. The green data points in Figure 1 represent the cultural analysis of a hypothetical organization with the cultural inclinations typically found in traditional, hierarchical enterprises. Comparing that profile with the agile ideal, the clear task in this case would be to raise the scores for *Openness* and *Performance orientation* while transforming the

traditional set of *Discipline* behaviors into those that emphasize adaptation and creative problem solving. This becomes the challenge of the senior leadership team, and the board must evaluate the leadership team's ability to execute accordingly.

In addition to approaching cultural change at the enterprise level, agile organizations can be built person by person by hiring people who strongly exhibit what additional research has termed "learning agility"—the ability to adjust, adapt, respond to and be resourceful in the face of change.

Beyond the requirements of agile organizations, learning agility is highly correlated with being regarded as "high potential" and with overall performance. Importantly, this quality is unrelated to chronological age—rather, it involves a set of attitudes and behaviors that can cross age brackets, including comfort with ambiguity and paradox, an inclination to think in terms of root causes, the ability to connect the dots and fill in the blanks, and broad professional and personal interests.

### Where to begin: a road map for leaders

In preparing their organizations for the competition ahead, outsourcing leaders thus are faced with two monumental tasks—expanding the capabilities of their organization and implementing an agile culture—that need to occur more or less simultaneously. All the while, of

course, today's business must continue to operate at full throttle. There is no one-size-fits-all solution, but there are general areas where leaders can begin the process of transformation:

- **Envision an organizational structure for the future.**

Depending on the firm's growth opportunities, it might need to structure itself according to geographic region, industry specialization, solutions and service lines or in some matrixed combination. Remember that how the firm is structured will significantly affect how current and potential clients and business partners perceive the firm and its capabilities. In addition, accept the fact that this is an ongoing process—at different points in the firm's trajectory, the organization's structure will have to be realigned with its developing capabilities and growth opportunities. Whatever structure is chosen, there should be clear lines of responsibility and accountability and accurate measurement of outcomes.

- **Assess the leadership team.**

Regardless of the type of culture the firm currently has and the changes the leadership team must implement for it to become an agile organization, an individual and collective assessment of the leadership team is critical. This assessment should extend two or three levels below each key position so that the evaluation spans not just

the current but the future state of the team; leadership assessment, in other words, forms the basis for comprehensive succession planning. The gap analysis that can be done from this assessment should be used to fine-tune senior leadership development and, where necessary, to identify external recruiting needs.

- **Evaluate the talent**

**management function.** The entire transformation process will significantly increase the demands placed upon the organization's talent management function, not merely in terms of capacity but in regard to sophistication. In short, talent will have to be actively managed. Multifaceted leadership development programs need to be created that include a structured mentoring system, training partnerships with universities and other intellectual resources, and job rotation programs that systematically provide exposure to new functions, challenges and geographies. Compensation and incentive programs must be designed to reward the appropriate risk taking and decision making that are central to agile organizations. And

organizations must be able to successfully recruit across regions from competitors and clients.

- **Strengthen the board.** During periods of transformation, management teams can greatly benefit from the guidance, counsel and networks of a well-structured board of directors. Boards should undergo their own evaluation to ensure that the directors collectively have the range of business experience, functional expertise and industry knowledge to be the best possible resource for management. Directors who, as executives, have steered their own companies through transformations are to be particularly prized. The board also should review its own procedures, from agenda setting to the director evaluation process, and make whatever adjustments are necessary so that the board is performing at the highest level when the challenges ahead arise.

Even the best outsourcing companies will find the process of transformation to be a significant challenge—but embracing that challenge fully will allow them to more easily seize a long-term competitive advantage in an expanding marketplace.

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