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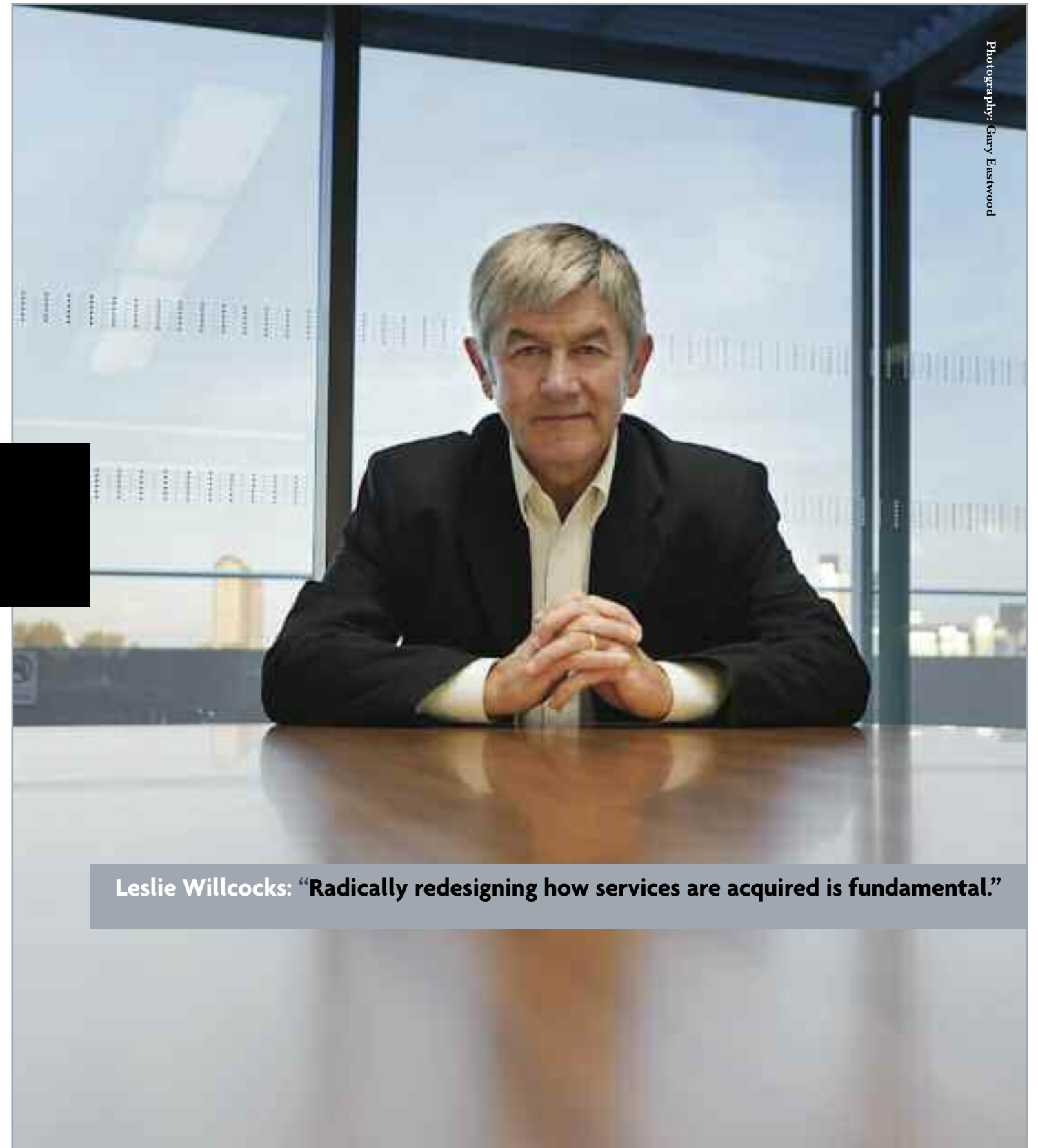
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Leslie Willcocks: "Radically redesigning how services are acquired is fundamental."

The Strategist invites strategic commentators to discuss key issues of the day. This issue, Chris Middleton talks to **Professor Leslie Willcocks** of the London School of Economics.

Leslie Willcocks is one of the UK's leading academics in the fields of outsourcing, sourcing policy and organisational change. In the wake of October's Comprehensive Spending Review (CSR) in Government, *Professional Outsourcing* asked Professor Willcocks whether alternative models, such as Cloud Computing and Shared Services, might offer a way ahead for public sector sourcing as the Chancellor's axe falls on every department.

Professional Outsourcing (PO):
The Government faces two problems. First, Whitehall is, by its nature, slow moving and bureaucratic, which makes it harder for it to grapple with an IT industry that is driven by hype. The second is not that Government

does not understand technology, but that its procurement practices are inefficient and inconsistent, and so it fails to use its clout as a purchaser. Together, these suggest a solution that might be anathema to the Coalition: more centralised buying.

Leslie Willcocks (LW): "I agree that too much of central and local Government lacks a strategic, centralised buying function and capability. If you are going down a route that requires even more outsourcing of IT, HR, back-office administration, and finance and accounting – as Whitehall is post-CSR – then radically redesigning how back office and IT services are acquired from the market, as well as internally, is a fundamental first step.

> **"Too much central and local Government lacks a strategic, centralised buying function and capability."**
>
> **Professor Leslie Willcocks**

Willcocks: "The sector is not well equipped internally."

"I see this problem in many countries and across sectors, and so it is not merely a UK public sector phenomenon. The way forward is for organisations to rethink the unit that they can optimally buy for, and upgrade their purchasing into strategic sourcing and informed buying functions.

"I do not think that is anathema to the Government; but I think what *is*, unfortunately, is the concept of spending money – i.e., investing in order to achieve the real economic advantages from this redesign.

"This leads me to a broader point. I do not see public sector agencies as being well equipped internally in terms of people capability; not just to procure, but also to manage external suppliers. I continually come across weaknesses in some of the other core capabilities that they need to deliver on business requirements, technology knowledge, strategy and architecture, plus leadership and governance.

"There is a long history of this in the public sector. It relates to pay constraints, recruitment strategies, budgetary realities,

"Unfortunately, what is anathema to the Government is the concept of spending money – ie investing to achieve the real economic advantages from this redesign."

politics, and being pushed into overuse of external contractors. Organisations that are the best at outsourcing tend to retain relatively few numbers of very capable people with distinct skill sets. They form a high-performance team and can keep control of their IT or back office direction. Only then does large-scale outsourcing begin to optimise its potential impact on cost, quality and innovation."

PO: Will that situation worsen in the wake of the Chancellor's drive for across-the-board savings, as detailed in the CSR [October 2010]?

LW: "In the current economic climate it was clear that major savings needed to be made in IT and back-office costs – estimated at some £36 billion a year. A report in May 2009 suggested that these could be reduced by some 30–50% by a combination of re-engineering, shared services, further (or smarter) outsourcing, and offshoring. But how?

"Public sector agencies need to develop dynamic strategies, with business, sourcing and IT objectives interlinked. They should 'leverage' their suppliers through collaboration and look for innovation as well as cost-reduction opportunities.

"But the Achilles heel of large-scale outsourcing in the UK public sector is most likely to be – as it has always been – a lack of investment in the in-house management capabilities needed to shape procurement strategy and service delivery."

PO: Indeed, a recent report from technology trade association Intellect [a **PO** media partner], *A New Decade, A New Outsourcing Challenge*, warns that too many outsourcing contracts are focused on cost containment, not opportunity, and that there needs to be a mechanism for understanding business value. In a climate of severe cuts, it is hard to believe that such an outcome is possible in the public sector. What about a radical rethink of what buying and procurement mean: a shift to Shared Services or Cloud Computing, for example?

Willcocks: "Cloud is not viable without radical change."

LW: "I do not think that either of those routes is really viable in the public sector. They are *technically* feasible, of course, but I mean in terms of the payoff – without the radical changes we have just discussed. Both approaches have implications for internal capabilities: first, to make organisational and technical changes; and second, to manage and operate in these radically different ways.

"There are plenty of examples throughout the public sector where Shared Services in particular make economic and processing sense, but there are real staffing, organisational and political barriers that need to be overcome first. The change process needs to be determinedly managed.

"With Cloud Computing, such a shift in the public sector would not be easy – and it would need to be evolutionary. Much of

the initial enthusiasm for Cloud services is being driven by the cost savings associated with the provision of large data centres by companies such as Microsoft and Amazon.

"So-called 'pay-per-drink' services are useful in situations where instantly scalable and flexible technology is required. They can cut costs dramatically. However – as firms have learned the hard way with outsourcing – a focus on cost minimisation through contracting is unlikely to lead to sustainable innovation, or the savings that come from that. This is particularly true as applications using Cloud services will become more complex and embedded in critical business processes.

PO: Yes, but there are other advantages: pay-per-use access to infrastructures that can scale up or down to meet demand...

LW: "Most organisational data processing is not of that kind, though; it is much more predictable and stable, and so those potential benefits are less significant. It is not clear why an organisation with a successful, collaborative outsourcing arrangement in place for its mainstream transaction processing would look to the Cloud at this time.

"Cloud Computing has much to learn from outsourcing. Indeed, the focus by Cloud service providers, such as Salesforce.com, on building and maintaining customer relationships suggests they are aware of the limitations of pay-as-you-go business."

PO: Of course, to some extent Cloud Computing is part of a wave of hype: a rebadging of technologies that have become more viable because of faster communications. So, is 'the Cloud' as much a part of the problem as all the other waves of disruptive technologies?

LW: "Users need to navigate through the hype, the technical capabilities and the useful technology phases to get to a strategic agenda – and that takes time.

"Hype fails to account for the heritage of client investments in IT and outsourcing, the influence that they and their suppliers have on the market, and on the types of service and the speed of their development. Most 'traditional' suppliers are pursuing Cloud services. They are also powerful enough to influence how these develop with their customers.

"Cloud technologies are a convergence, more than a radical departure. They are being applied and learnt about in complex markets, relationships and interests. The drag effect is much greater than the supposed frictionless acceleration to a new place that is so often posited.

"In addition, technology-driven scenarios like Cloud can unleash strong forces of innovation among existing and new players. It is clear that supplier collaboration is going to be a requirement if Cloud services really are going to take off. The real innovations may well be through how those collaborations play out as superior business models.

"Cloud Computing's potential to alter corporations and markets to allow them to be more nimble – to create what we have termed 'cloud-corporations' – offers greater chances for innovation than simply shipping 'tin' out of one data centre and into another. The future – and our

"The public sector needs to develop its own centres of excellence in these areas, and in-house capabilities. But again, that requires both investment and time."

current research backs this up – is likely to be hybrid, rather than just 'Cloud'.

PO: Has the Government been guilty in the past of seeing technology as an end in itself – a badge of modernity – rather than asking what problem it solves?

LW: "Yes. Governments of every hue have tended to buy technology as an enabler of modernisation – that was very clear under Blair, for example. Every Government underestimates the difficulty of implementation, the feasibility of projects' objectives, the resources required – and the real likely cost as a result. There has been too much focus on policy, not enough on implementation, and as a result IT has been seen almost as a fire-and-forget missile.

"The present Government will probably make the same mistake with outsourcing. Signing contracts that *look* favorable is one thing; getting them delivered is quite another.

Willcocks: **"Government will make the same mistakes."**

PO: Did the last Government hand too much power to consultancies and systems integrators? And if so, where does the Coalition find that expertise now and in the future?

LW: "I think the public sector needs to develop its own centres of excellence in such areas, and in-house capabilities that can be used across other parts of the public sector on a semi- or fully commercialised basis. But again, that requires investment and time – the two things this Government does not believe we have.

"Suppliers could help develop those centres, even on a joint venture basis. This has been tried before, but perhaps now the time is ripe. Outsourcing has matured in the last four years. More organisations have the desire to collaborate and move away from traditional contracts." ∎