

Chapter 4.2

The Use of Outsourcing as a Business Strategy: A Case Study

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ABSTRACT

In this chapter, we discuss how a leading telecommunications software development company went about outsourcing some phases of the system development life cycle (SDLC) of network management systems in order to achieve both the short-term tactical goals as well as the long-term strategic goals. We present a framework consisting of seven factors that should be used by companies using outsourcing as a business strategy. This framework was used to analyze the outsourcing practices used by this company. The framework includes the driving forces for offshore outsourcing, the selection process of outsourcing vendors and the infrastructure (communication links, hardware, software, and organizational structure) that was needed to insure that the outsourced work meets company's internal quality requirements, which are derived from CMM5 and ISO9001 certifications. We also present the challenges of making these things happen, what worked well, and the lessons learned.

INTRODUCTION

Today's global business environment has put companies ever so more under pressure to have competitive advantage over its competitors. The competitive advantage can be manifested in many ways such as reducing the cost, having a unique product, being able to meet changing marketing (customer) needs quickly, and achieving operational excellence. Operational excellence means doing more work with less resources. In this age of lean production (Just-in-time), companies are forced to become lean in keeping their internal resources, both capital as well as human resources. This has forced companies to look outside to get access (often temporary) to resources of other companies. They are looking for outsourcing arrangements, collaborations, and partnerships with other companies. Outsourcing has become a common phenomenon in the IT world. With the power of high-speed telecommunications, it is now possible to access skills for almost everything, from answering the telephone to

developing computer systems, at a fraction of the costs in the USA

It should be mentioned that IT outsourcing has been practiced in the USA since the late-eighties. Some of the notable examples are Kodak's outsourcing its IT functions to IBM and GM outsourcing its IT functions to EDS. This wave of outsourcing was driven more by the strategic goals (outsourcing the functions that were not part of core competency of the client company) and less by the operational goals such as cost savings. The current round (mostly over the last 5 years) of outsourcing has been both strategic and operational (tactical). Such is the case with Telcordia Technologies, a leading supplier of telecommunication network management systems in the USA. It has undergone through an upheaval in the last 4 to 5 years. It is into its fourth CEO and third vice president of software systems division. Simply put, it is fighting for survival. This chapter analyzes how Telcordia Technologies has used outsourcing as a business strategy and how its outsourcing strategy has evolved during this period. In doing so, we not only focus on strategic issues, but also operational issues that are essential to achieving success in outsourcing.

BACKGROUND INFORMATION: TELCORDIA TECHNOLOGIES

Telcordia Technologies is a leading global provider of telecommunications software and services for IP, wireline, wireless, and cable networks. The company delivers flexible, standards-based solutions that optimize complex network and business support systems, enabling customers to manage, transform, and grow their businesses. Telcordia is headquartered in Piscataway, N.J., with offices throughout the United States, Canada, Europe, Asia, Central and Latin America. On March 15, 2005, Providence Equity Partners and Warburg Pincus announced completion of their acquisition of Telcordia Technologies from Science Applications International Corporation.

Formed out of Bell Labs, AT&T, and Western Electric as the central service organization (CSO) at the time of the Bell System Divestiture in 1984 to provide research and development support to the seven Regional Bell Operating Companies ("Bell Bells"), it was named the Bell Communications Research (Bellcore) in 1985. Bellcore, consisting of 3,000 employees, was owned by the RBOCs. In 1995, Bellcore's revenue was \$1B out of which \$650M was from software sales and \$350M was from professional services. Between 1984 and 1995, Bellcore established itself and was renowned for research and development that led to: ADSL, ATM, Frame Relay, SONET, AIN, ISDN, a generic open switch interface (a predecessor of the international V5 interface), and so forth.

After the Telephone Reform Act of 1996, when the Baby Bells started competing with each other and the joint ownership of Bellcore was considered not viable, they sold it to SAIC in November 1996. From 1996 to 2000, Telcordia saw a tremendous growth; its revenue grew to close to \$2B with over 8,500 employees. Since 2001, with the slowdown in the telecom industry due to overcapacity and competitive pressures from cable and voice-over-IP, Telcordia has been under tremendous pressure and has been fighting for survival. Telcordia's Web site shows its annual revenues (in 2006) of \$800 million USD with 2,900 employees worldwide.

Telcordia Technologies has also sought to increase its presence in India. The original model of outsourcing development work to Wipro, an Indian outsourcing company, has evolved to opening its own branch (Telcordia Technologies India) in India. At this time, Telcordia is on record to be following *the relational model* (Dyer & Singh, 1998) for outsourcing. Its partners are Accenture, Wipro, and Nokia. Telcordia has partnered with Wipro, an Indian IT company, since 2003 for its software development offshore contracts. The partnership with Nokia and Telcordia is designed to help mobile operators support 2G, 2.5G, and 3G mobile services via Telcordia software systems.

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