

Chapter 4.7

Strategic Outsourcing: Opportunities and Challenges for Telecom Operators

Varadharajan Sridhar
Management Development Institute, India

ABSTRACT

Telecom operators have a wide variety of functions to perform including marketing of telecom products and services, managing their networks, providing after-sales customer service, and innovating new products and services in tune with fast changing technologies. Though until recently the telcos have kept their core network management functions in-house, there are recent announcements of large scale outsourcing of network management functions. As operators, especially those providing mobile services, have evolved from offering voice services to advanced data and video services, the Information Technology (IT) services required for appropriate management of these value added service offerings have also become complex. Some carriers have also outsourced their IT functions to large IT services vendors. In this chapter we deliberate the reasons for strategic outsourcing such as core competency, production economies, and transaction costs as presented in the literature and

analyze these in the context of outsourcing model pioneered by an Indian mobile operator. We also explain vulnerabilities and risks associated with these outsourcing contracts and measures to be taken by the firm to mitigate their effects.

INTRODUCTION

Outsourcing is defined as the process of commissioning part or all of an organization's assets, people, and/ or activities to one or more external service providers (Lee, 2006). Lee (2006) further points out that since outsourcing can make organization either agile and proactive, or sluggish and reactive, it is just not an operational decision but a strategic one with far-reaching consequences.

Quinn & Hilmer (1994) point out the following two strategic outsourcing approaches used by chief managers of organizations:

1. Concentrate the firm's own resources on a set of "core competencies" where it can

achieve definable preeminence and provide unique value for customers.

2. Strategically outsource other activities—including many traditionally considered integral to any company—for which the firm has neither a critical strategic need nor special capabilities.

By doing the above, firstly, the firms maximize return on internal resources. Second, well developed core competencies provide formidable barriers against future and present competition. Third, the firms that outsource are able to fully utilize the external supplier's investments, innovations and specialized professional capabilities to their advantage. Fourth, this joint strategy decreases risk, shorten cycle times, lowers capital and operating expenditures for the firm.

Through out 1990s, large firms in the United States first began outsourcing non-core information technology (IT) services to large companies domestically, preferring to have these services provided securely and reliably from outside, rather than building up in house expertise. Outsourcing work mainly included software application development and maintenance.

Typically the IT services and their associated processes tend to be human intensive and are traditionally outsourced to countries where the labor costs are lower and from where the services could be delivered remotely without sacrificing quality and efficiency (Sridhar & Bharadwaj, 2006). Referred to as offshoring, the organization's products and services in this case are provisioned from locations in other countries (Davis, et al., 2006). Examples of such offshore outsourcing areas include customized software development, package software implementation, software product testing, customer care support services, IT infrastructure management and back office operations.

US companies expanded off-shoring through partnership, acquisitions and local subsidiaries. Thus they followed a less risky and more strate-

gic approach of alliances by keeping the control with them. Their sourcing strategy more closely resembled the "in-sourcing" strategy of traditional offshore investments for global manufacturing. Sridhar & Bharadwaj (2006) discuss details on the model of growth of IT and IT Enabled Services outsourcing industry.

Strategic Outsourcing Models

Following are the three different outsourcing strategies pursued by firms (Lee, 2006):

Independent Outsourcing Strategy

In an independent strategy, relationships with external providers are tenuous, with interactions lasting for a very brief period of time. In this strategy, firms acquire resources externally but manage them internally. Firms develop indigenous competency thus minimizing dependence on external entities for critical organizational resources. This approach pursues a minimal outsourcing, buy-in contract and short-term duration strategy to gain outsourcing benefits by redirecting the business in to core competencies.

Arm's Length Outsourcing Strategy

An arm's length approach is based on non-idiosyncratic relationships with the presumption that sellers are interchangeable. These relationships commence with a detailed specification of each party's obligations. The control of unspecified obligations are vested on the provider. In order to minimize the exposure to provider opportunism, such relationships are loosely coupled, and long-term commitments are avoided. The outcome of such relationships is typically cost efficiency through the competitive pricing of services. In summary, this strategy focuses on improving the business' financial position by pursuing a selective outsourcing, fee-for-service contract, and medium-term approach.

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