

**School of Information Systems**

**Curtin Business School**

**Offshore Business Processing Outsourcing by Australian  
Enterprises to Service Providers Located in India.**

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**This work is presented for the Degree of  
Doctor of Philosophy  
of  
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**DECLARATION**

To the best of my knowledge and belief this thesis contains no material previously published by any other person except where due acknowledgment has been made.

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university.

The research presented and reported in this thesis was conducted in accordance with the National Health and Medical Research Council National Statement on Ethical Conduct in Human Research (2007) – updated March 2014. The proposed research study received human research ethics approval from the Curtin University Human Research Ethics Committee (EC00262), Approval Number # IS\_06\_06.

Signature: 

Date: 5 December, 2017.....

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**LIST OF PUBLICATIONS ARISING FROM THIS RESEARCH**

- Davidson, F., Wreford, J., Penter, K and Perrin, B. (2017), Capturing Stakeholder Engagement. In I. Oshri, J. Kotlarsky & L. P. Willcocks (Eds.), *Global Sourcing of Digital Services: Micro and Macro Perspectives, 11<sup>th</sup> Global Sourcing Workshop, La Thuile, Italy, February 22-25, 2017. Revised Selected Papers*. Switzerland, Springer.
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These publications are cited where relevant in this thesis.

## ABSTRACT

Offshore Business Process Outsourcing (OBPO) refers to the disaggregation and global sourcing of both administrative and more knowledge-intensive business processes that are essential components of a company's value chain (i.e. are essential to achieving its mission). In adopting OBPO, client companies have sought competitive advantage through access to deep and relatively low cost pools of high quality professionals in countries such as India, the Philippines, China, Poland and Brazil.

The global market for OBPO was estimated at \$160 billion USD in FY16, with India alone generating more than \$100 billion in value from business services outsourcing. Hence, it is the global scale of the OBPO phenomenon that makes this an important research topic. For practitioner executives, OBPO has been identified as offering "tremendous opportunities to drive business value" (Lacity, Willcocks & Rottman, 2008); hence it is an option that must be evaluated and implemented successfully in order to meet shareholder expectations.

However, it is also common to find both academic and practitioner literature referring to high rates of failure and management dissatisfaction with the results of OBPO initiatives (Jensen, Larsen & Pedersen, 2013; Lacity & Willcocks, 2017). These findings suggest that OBPO research provides insufficient guidance in designing effective OBPO strategy.

Therefore, a fundamental objective for this research was to identify factors that contribute to success in OBPO, and develop a framework that could provide guidance to managers. The terminology of "offshore service provider" also extends to an internal subsidiary operation in a client company (often referred to as a "captive operation" or "global in-house centre"). Noting that the captive model for offshore BPO represents approximately 30% of global OBPO but is also the least researched (Oshri & van Uhm, 2012), another key gap addressed in this research is the nature of the value proposition that captive centres deliver to their parent companies (Balaji, Chand & David, 2012).

The primary research question can be expressed as follows:

*"What are the key factors that contribute to the success of offshore business process outsourcing by Australian and international organisations to service providers located in India and the Philippines?"*

Since an aim of the research was to bridge a gap between management practices and emerging academic theory, a framework for managing OBPO has been developed, based on a Critical Success Factors (CSF) approach. CSF have been defined as those areas of activity, generally few in number, in which positive results ensured successful business outcomes (Bullen & Rockart, 1981). Generally, CSF are specific to business context, and have also been

characterised as “things that must go right”, or those factors where favourable results are absolutely necessary to achieve satisfactory business outcomes (Bullen & Rockart, 1981).

Prior research on Critical Success Factors for OBPO appears to be scarce. As far as the author can establish, this research represents the first effort to develop a comprehensive CSF model for OBPO combining the perspectives of both clients and suppliers and with a particular focus on the offshore outsourcing of knowledge-intensive, higher value-added activities.

The philosophy adopted for this project can be described as positivist qualitative research utilising case study methods. Four theoretical lenses have been applied in developing the findings presented in this research; transactional cost economics (TCE), resource-based view of the firm (RBV) combined with organisational learning and Institutional Theory.

A qualitative research design based on multiple, longitudinal case studies was seen as the most appropriate approach to addressing the primary research question. These in-depth case studies involved five Australian and global client companies engaged in OBPO together with their service providers which were located primarily in India and also in the Philippines.

A primary contribution of this research was identification and validation through longitudinal case studies of a set of critical success factors for management of OBPO at the individual company level. A further contribution has been identification of trends in OBPO captive centres, explanations for their persistence and analysis of the value proposition offered by OBPO captives. Other contributions include clarification of the definition of success for OBPO, and classification of OBPO activities, especially those activities that are defined as knowledge-intensive services for which captive centres appear particularly well suited.

Hence, the research results may be of interest to Australian and international managers, government policy makers, academics in business and information systems management disciplines and their counterparts in India and other countries that are prominent destinations for offshore BPO.

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## GLOSSARY OF TERMS AND ABBREVIATIONS

APRA	Australian Prudential Regulatory Authority
BP	Business processes
BPO	Business Process Outsourcing
BPAP	IT & Business Processing Association of the Philippines
Captive centre	A captive centre is a business unit that is owned by and provides OBPO services to the parent firm from an offshore location (Oshri & van Uhm, 2012)
Captive operation	Synonym for OBPO captive centre or captive centre
CEO	Chief Executive Officer
CIO	Chief Information Officer
Client company	Company that is doing the outsourcing
CSF	Critical success factors. Refers to management decisions and activities, generally few in number, in which positive results ensured successful business outcomes
Engagement model	Decision by a client company as to whether it will obtain OBPO services through a contract with a third-party service provider, or through an OBPO captive centre
Global delivery model	Delivery of OBPO services by a global service provider through a combination of relationship management staff located close to a client company and delivery staff working in a low-cost location such as India or the Philippines. Usually involves a combination of onshore, near shore and offshore BPO
GIC	Global in-house centre. Synonym for offshore captive centre
Global service provider	Company with a global presence that specialises in providing OBPO services. See also “OBPO service provider” which has similarities
Governance mode	Alternative terminology for selection of OBPO engagement model. “Internal governance” refers to an OBPO captive

	centre while “external governance” refers to OBPO performed through a contract with an OBPO service provider
High value tasks	A sub-category of OBPO. High value OBPO tasks are characterised by high levels of complexity, by the degree of discretionary business judgement required of OBPO service provider staff and by the amount of tacit knowledge these staff need in order to perform effectively
IB	Academic and research discipline of International Business
IS	Academic and research discipline of Information Systems
IT	Information Technology
ITO	Information Technology Outsourcing
ITO Configuration	An organisation’s high-level structural approach to IT outsourcing that provides insight into the choices open to management when making decisions about ITO
Interaction intensity	Level of direct contact by OBPO service provider personnel with the end customers of a client company
Knowledge-intensive services	Synonym for high value OBPO tasks and for KPO
KPO	Knowledge Process Outsourcing. Synonym for knowledge-intensive services and high value tasks
Knowledge clusters	Enclaves that have been established in particular offshore locations such as Bangalore, Gurgaon and Manila, characterised by deep pools of skilled and experienced OBPO labour, other service provider capabilities and concentrations of client companies which are the customers for the OBPO services. Also referred to as “knowledge services clusters”
NASSCOM	National Association of Software and Services Companies. Trade association of Indian Information Technology and Business Process Management companies
Near shoring	Conducting OBPO in another country that is relatively close in terms of geography, time zone and cultural distances
OBPO	Offshore Business Process Outsourcing. Refers to the disaggregation and global sourcing of both administrative

and knowledge-intensive business processes that are essential components of a company's value chain (i.e. are essential to achieving its mission)

OBPO captive centre	Internal subsidiary of a client company which provides OBPO services that are performed by staff who are hired and located in a low-cost offshore location (e.g. India, the Philippines)
OITO	Offshore Information Technology Outsourcing
OI	Opaque indifference refers to OBPO delivered in a manner whereby the end customer of the client company is either unaware of, or indifferent to, the location from which the OBPO service is delivered, because expectations are met in terms of efficiency, effectiveness, price and risk
OTSS	Operations, Technology and Shared Services. The name of the OBPO captive centre of ANZ Bank, located in Bangalore and the subject of one on the longitudinal case studies conducted as part of this research
Outsourcing	Outsourcing, which can be either in the home country of the client company or to a foreign location, entails a conscious decision by client company management to transfer responsibility for selected value chain activities to an external service provider
Offshore outsourcing	Disintermediation and global sourcing of both administrative and more knowledge-intensive business processes. Similar to the terms "offshoring" and "near shoring"
Offshore service provider	Company that specialises in the delivery of OBPO to client companies, usually with a large OBPO work force drawing upon deep pools of relatively low cost labour in countries such as India, China and the Philippines
Offshoring	In the context of this research, OBPO involving restructuring of a client company's value chain along geographical dimensions
Saliency table	"Saliency" is defined as the importance or significance of a particular OBPO factor, as identified through qualitative data

collected in longitudinal case studies. Salience tables summarise the ratings for a series of propositions that were tested in the case studies

RBV	Resource Based View of the firm (Barney, 1991)
Tacit knowledge	Tacit knowledge is defined by Smith (2001) as practical, action-oriented knowledge or “know how” based on practice, acquired by personal experience, seldom expressed openly, often resembling intuition
TCE	Transaction Cost Economics (Williamson, 1979)
TCT	Transaction Cost Theory. Synonym for TCE.

## CHAPTER 1 INTRODUCTION

### 1.1 INTRODUCTION

Over the past six years, offshore business process outsourcing (OBPO) has grown significantly from \$85 billion in FY2010 to around \$160 billion in FY2016, and future projections indicate continuing strong growth. It is the global scale of the OBPO phenomenon that makes this an important research topic, with implications for managers in many companies because OBPO has been identified as offering “tremendous opportunities to drive business value” (Lacity, Willcocks & Rottman, 2008). Therefore, practitioner executives must be able to evaluate the opportunities and risks presented by OBPO to meet expectations of their shareholders.

However, only limited published research is available to guide senior management’s **strategic decision-making** regarding OBPO choices and implementation. The relatively high rates of failure and management dissatisfaction that have been observed in OBPO initiatives (Lacity & Willcocks, 2017) suggests that OBPO theory provides insufficient guidance in designing OBPO strategy. Management decision-makers can proceed on the basis that their peers and competitors are adopting OBPO strategies, or they can take advice from consultants and OBPO service providers (who may not be objective and disinterested parties). For a client company to proceed without a well-designed OBPO strategy would be risky, because there are path dependencies associated with OBPO commitments. Reversing an unsuccessful OBPO strategic choice is likely to generate high switching costs and be far slower than the initial OBPO course of action (Rouse & Corbitt, 2007; Augustin, Heinzl & Dibbern, 2010).

For the senior management teams in client companies (i.e. those doing the outsourcing of business processes), OBPO strategy involves making decisions about the optimum disaggregation of their company’s value chain (Contractor, Kumar, Kundu & Pedersen, 2010), followed by decisions as to how each slice of the value chain should be allocated geographically and organisationally (i.e. within or outside the boundaries of the company).

A strategic outcome from what Youngdahl, Ramaswamy and Verma (2008) refer to as the “meteoric” rise in the incidence of OBPO is that the boundaries of many client companies have simultaneously shrunk organisationally and expanded geographically while also becoming more permeable (Contractor, et al., 2010). The disaggregation of the value chain beyond an optimal degree also entails greater complexity and added costs. These occur as a result of the additional management time needed to coordinate the **reciprocal interdependencies** between the tasks that are required to be performed within the **extended**



**team** that is comprised of representatives of the client company and the OBPO service provider (Jensen, Larsen & Pedersen, 2013).

Once OBPO is underway, opportunities for informal coordination are eliminated or severely reduced and teams working on end-to-end business processes may find it difficult or impossible to build collegial working environments. To find common ground is more difficult because these teams lack shared business context and there may be less direct communication between participants (Jensen et al., 2013), perhaps due to time zone differences, cultural or language barriers between geographically dispersed sites. The additional management costs and overheads, combined with the difficulties of communicating tacit knowledge across national and cultural boundaries, provide a possible explanation for high rates of failure encountered in both offshore Information Technology Outsourcing (OITO) and OBPO (Hutzschenreuter, Lewin & Dresel, 2011b; Lacity & Willcocks, 2017).

While there has been growth in academic literature on OBPO, particularly from 2006 onwards, strategic frameworks that provide guidance for senior management decision-making appear significantly under-researched (Rottman & Lacity, 2008; Schoeman, Bakker, Borgers, van Hillegersberg & Moody, 2008; Hatonen & Eriksson, 2009; Lacity, Solomon, Yan & Willcocks, 2011b). Reference to relatively high rates of failure and management dissatisfaction with results of OITO/OBPO decisions are also widespread in practitioner publications and academic literature (Cullen, Seddon & Willcocks, 2005; Rottman & Lacity, 2006; Hatonen & Eriksson, 2009; Jensen et al., 2013; Lacity & Willcocks, 2017). These findings suggest that offshore ITO/BPO research provides insufficient guidance in designing effective OBPO strategy. Hence, there is a gap which this research seeks to address through the primary research question which is outlined in section 1.4 below and discussed in more detail in Chapter Four dealing with Research Methods.

## **1.2 DEFINITIONS OF OFFSHORE BUSINESS PROCESSING (OBPO) ACTIVITIES**

It is important to define carefully the phenomenon under study, otherwise there is likely to be ambiguity in any conclusions reached, and the identification of research gaps is rendered less meaningful without careful attention to definition of the OBPO phenomenon and its boundaries.

*Outsourcing* can be conducted in the home nation of the client company and also to foreign locations (*offshore outsourcing*), and involves a decision by client company management to delegate responsibility to external service providers (Contractor et al., 2010). *Offshoring* represents restructuring of the company's value chain along a different dimension, that of

geography, and can be further categorised into *near shore* and *far shore* outsourcing (Carmel & Abbott, 2007).

In the broad context of offshore ITO and BPO (henceforth referred to as OITO and OBPO), global service providers have built up competitive advantages through having access to a deep pool of well-educated professionals with proficiency in the English language (and other languages such as Japanese, German, Spanish and French) that are utilised in the home countries of client companies. The global suppliers of OBPO services (usually referred to in the literature as “vendors” or “suppliers” and sometimes as “offshore service providers”) operate with “global delivery models” providing IT-enabled services from dispersed geographical sites. The deep and relatively low cost skilled labour pools in countries such as the Philippines, India, China, Poland, Russia, Mexico and Brazil has given a source of advantage to emergent service providers such as INFOSYS, TCS, WIPRO, Genpact and WNS. These emergent companies are now competing on a global scale with established OITO/OBPO companies such as IBM, Accenture and Hewlett Packard EDS that have also established operations in (for example) India where they also engage large numbers of employees from these deep talent pools (Hamm, 2007).

In addition, the terminology of “offshore service provider” also extends to an internal subsidiary operation (“captive” or “global in-house centre”) established in one of these locations that are attractive as a supplier of offshore services (Rottman & Lacity 2004, 2006; Youngdahl, et al., 2008; Oshri & van Uhm, 2012).

The definition of offshore Business Process Outsourcing (OBPO) used for this research involves the disintermediation (or disaggregation) of business processes that are required for an organisation to complete its mission, and also draws upon the concept of deciding how each business process should be sourced both geographically and also organisationally (Contractor et al., 2010; Manning, Larsen & Kannothra, 2017).

*Offshore Business Process Outsourcing (OBPO) refers to the disaggregation and global sourcing of both administrative and more knowledge-intensive business processes that are essential components of a company's value chain (i.e. are essential to achieving its mission).*

### **1.3 MOTIVATION AND AREAS OF FOCUS FOR THE RESEARCH**

This section provides a summary of the key focus areas in this research, which led to the primary and secondary research questions outlined in section 1.4. This research started in an Australian business context when it was recognised that offshore business process outsourcing (OBPO) was a largely unexplored and under-theorised area, and that managers were seeking

practical guidance on matters such as which business processes were suitable for OBPO, and what strategic choices were required to maximise prospects for success (Pervan, 2004). An initial review of the extant academic literature revealed that overarching strategic frameworks for OBPO were rare, and hence the primary research question is aimed at developing a critical success factors model for conducting OBPO.

A major focus of this research was to address gaps identified by Hatonen and Eriksson (2009) who considered that what was most important to practicing managers were the determinants of outsourcing success, and why some OBPO initiatives succeeded in achieving their business objectives, and others failed in their outsourcing endeavours. Another research gap and fundamental problem also identified by Hatonen and Eriksson (2009) was that the question of how success in outsourcing should be evaluated has not been thoroughly examined. This is discussed further in section 1.4.2 and also in Chapter Three.

### 1.3.1 Size and structure of the OBPO industry

As indicated in the summary table 1.1 below, the global scale of the BPO phenomenon is already large and forecast to continue to grow strongly. Hence this is a phenomenon worthy of significant research focus. The table below summarises estimated OBPO global market size. Everest and other analysts report that Global In-house Centres (or “captive operations”) have represented about 30% of offshore BPO activity across that period.

**Table 1.1 Estimated OBPO global market size (USD billions)**

<b>Financial Year</b>	<b>Third-party contracts</b>	<b>Global In-house centres (GIC)</b>	<b>Total market</b>	<b>GIC as a percentage of total</b>
FY 10	\$60b	\$25b	\$85b	29%
FY 14	\$97b	\$40b	\$137b	29%
FY 16	\$113b	\$47b	\$160b	29%
FY17	\$120b	\$51b	\$171b	29%
FY18	\$127b	\$55b	\$182b	30%
FY20	\$140b	\$64b	\$204b	31%

The data incorporated in table 1.1 is discussed in more detail in Chapter Two, section 2.3 which provides a range of estimates for the size of the global OBPO industry and explains the methodology used to calculate the data that is presented in the above table. Figures for FY16

in table 1.1 above are based on estimates from Everest and NASSCOM (NASSCOM Indian IT-BPM Industry FY16 Performance and FY17 Outlook, February 2016).

### 1.3.2 Literature review summary

The Literature Review which is presented in Chapter Two was based on a systematic analysis of articles from both Information Systems and International Business disciplines. The methodology adopted for selecting articles for inclusion was a similar but less formal version of path and citation analysis to that conducted by Liang, Wang, Xue & Cui, (2016), a literature review that is noteworthy for spanning both the IS and IB research disciplines and for providing citation networks for both BPO and offshoring.

The methodology adopted for selecting articles that have been utilised in the literature review can be described as “heuristic”, in that it was based initially on key word searches similar to that adopted by Lacity, Solomon, Yan and Willcocks (2011), which is henceforth referred to as Lacity et al., (2011a), followed by consideration of citation counts and citation networks. Where the literature review in this research differs from Lacity et al., (2011a) is that it does include theoretical papers such as Contractor et al., (2010) and also papers dealing with OBPO captive centres. It is acknowledged that the selection of papers for inclusion in this literature review was to a certain extent subjective, which inevitably introduces sources of personal bias.

Table 1.2 below summarises the over-arching logic that was adopted for identifying key themes in the literature. *Firstly*, it is assumed that client companies conducting OBPO have a series of motivations or drivers for conducting OBPO, and these drivers are translated into management intentionality. *Secondly*, management intentionality leads to a series of actions and decisions that are aimed at increasing prospects of OBPO success and/or improving outcomes. This second component could be characterised as “the offshoring organisation in action” (Schmeisser, 2013). *Thirdly*, that over time as management in both the client company and its OBPO service providers gain experience and knowledge from company-specific OBPO activities, that there will be dynamic adaptations aimed at increasing gains and/or responding to changes in business context.

**Table 1.2 Overarching logic for identifying major themes in OBPO research literature**

<b>What are companies' motivations and objectives for conducting OBPO?</b>	<b>Management actions &amp; decisions that increase prospects of OBPO success</b>	<b>Increasing OBPO sourcing flexibility (learning and adapting from OBPO experience)</b>
<ul style="list-style-type: none"> <li>- competitive pressures</li> <li>- globalisation</li> <li>- company-specific drivers &amp; business context</li> <li>- disaggregation of value chain and selection of business processes for OBPO</li> <li>- institutional influences</li> <li>- degree of prior offshoring experience</li> </ul>	<ul style="list-style-type: none"> <li>- factors unique to OBPO</li> <li>- developing &amp; executing OBPO strategies</li> <li>- coordinating OBPO relationships across company value chain</li> <li>- managing institutional distance between client companies and OBPO service providers</li> <li>- arrangements for governance and coordination of OBPO</li> </ul>	<ul style="list-style-type: none"> <li>- adapting OBPO strategy and execution to changing business context</li> <li>- building OBPO capability</li> <li>- increasing company knowledge of OBPO and dissemination to key internal stakeholders (i.e. organisational learning)</li> <li>- managing and updating a company's portfolio of OBPO engagements (OBPO configuration)</li> </ul>

### 1.3.3 Size and importance of OBPO captive sector

For Australian and international firms seeking to engage in BPO with service providers located in India, a variety of ownership and relationship structures are possible (Ramachandran & Voleti, 2004). These choices can be summarised as follows (see Chapter Two, sections 2.5 and 2.5.1 for more detail):

- Set up a captive centre (i.e. wholly owned subsidiary) at an offshore location such as Bangalore or Gurgaon in India or Manila in the Philippines;
- Engage through an arms-length contract with an Indian-headquartered company (e.g. INFOSYS, WIPRO, TCS, etc.) that provides OBPO services on a global basis, with a strong presence in the client companies' home markets (e.g. Australia or UK, etc.);
- Engage through an arms-length contract with a global multi-national service provider that can also offer access to a skilled and relatively low cost OBPO workforce located in India (e.g. Cap Gemini, IBM Global Services, Accenture, etc.)
- Engage through an arms-length contract directly with OBPO service providers located in (for example) India or the Philippines. This model would involve the client

company in conducting significant search and contracting activity in offshore locations such as India, the Philippines and other countries that are potentially destinations for OBPO.

Offshore captive centres (also referred to as “Global In-house centres”) are typically set up in countries such as India and the Philippines where client companies can draw upon large pools of qualified and experienced staff available at lower labour rates than in a client company’s country of origin (Levina & Vaast, 2008; Oshri & van Uhm, 2012). While India continues to dominate as the location for OBPO captive centres, there are now over 120 offshore locations seeking out OBPO work (Willcocks, Griffiths & Kotlarsky, 2009), and recent published research by Everest Global, Inc. (2016) reported that there were 1.2 million full time equivalent (FTE) staff employed in GIC or captive centres.

Despite this very large level of activity, research into OBPO captive centres is still in its infancy (Oshri & van Uhm, 2012) and the value proposition offered by captive centres to the parent (or client) company is a significant gap that this research has aimed to address.

While the value proposition of captive centres for OBPO remains significantly under-researched, Elia, Narula and Massini (2015) note that the captive engagement model has particular strengths for knowledge-intensive, high value OBPO. Elia, Canniato, Luzzini and Piscitello (2014) argue that the higher the OBPO task complexity, the greater the risk that arms-length contracts with external service providers will not deliver adequate technical service quality to the client company. Consequently, Elia et al., (2014) argue that OBPO of more complex tasks will generally require a captive governance mode.

#### **1.3.4 Choice of OBPO location**

Location choice has been recognised as fundamental to OBPO decisions (Carmel & Abbott, 2007; Aubert, Rivard & Templier, 2011), and published research on location choice is discussed in detail in Chapter Two, section 2.6. While published models for making OBPO location choice exist, Gerbl, McIvor and Humphreys (2016, p 1040) argue that there is still a research gap in our understanding of location choice, and “in particular the choice between local (i.e. domestic), nearshore and offshore”. A number of researchers have argued that country-attractiveness factors can only partially explain selection of OBPO location (Oshri & van Uhm, 2012; Gerbl et al., 2016), while Mihalache and Mihalache (2016) propose a multi-level model that takes into account country attractiveness at the OBPO location, client company factors including prior OBPO experience and task-level considerations (referred to by Gerbl et al., (2016) as process-level factors).

According to Gerbl et al., (2016), location choice needs to take into account both company-level and business process-level factors, and should involve consideration of business process factors such as level of end customer contact (referred to by Youngdahl & Ramaswamy, (2008) as “interaction intensity”), complexity, customisation and codification. The role of organisational learning may also be a significant influence on location choice, as the prior offshoring experience of a client company’s management team will shape location choices.

Other researchers (Mihalache & Mihalache, 2016) have argued that the OBPO location choice is particularly complex, and some factors that need to be taken into account may be contradictory, thus requiring client companies to make trade-off choices between (for example) lower labour input costs for skilled resources, and higher risks associated with managing perceived cultural and geographic distances (Aubert et al., 2011).

Noting that the choice of location for OBPO is among the most important critical success factors, a number of researchers (Oshri & van Uhm, 2012; Schmeisser, 2013; Gerbl et al., 2016) have argued that client companies must evaluate and adapt their selection of OBPO location on a regular basis in order to respond to forces of globalisation and competition.

### **1.3.5 India’s global leadership in OBPO**

For almost four decades, India has been recognised for its high levels of management expertise and capability in both OITO and OBPO, which draws upon the deep Indian talent pool of well-trained, English-speaking professionals with high levels of IT and business competencies. The global market for OBPO was estimated at \$160 billion USD in FY16, with India alone generating more than \$100 billion in that year from business services outsourcing. The genesis of the OBPO industry in India appears to have been decisions in the mid-80’s by global multinationals such as McKinsey, American Express, British Airways and GE to utilise India as the preferred location for handling many of their “back office” business processes (Knowledge@Wharton, 2003; McKinsey, 2004).

A range of factors have contributed to India’s leadership in OBPO, including demographic and talent advantages together with the presence of government support and a very effective industry association NASSCOM (National Association of Software and Services Companies) which was founded in 1988 as the trade association of the Indian Information Technology and BPO industry, now with 2,000 members (NASSCOM, 2016). The successful activities of the early adopter companies have led to waves of foreign direct investment and the emergence of talent pools and service provider capabilities in tier one locations such as Bangalore and Gurgaon, which are referred to by Manning et al. (2017) as “knowledge service clusters”.

Given India's global leadership in OBPO, a significant focus of this research has involved on-the-ground data collection in locations such as Bangalore and Gurgaon.

### **1.3.6 Identification of OBPO research gaps**

The review of literature in Chapter Two confirms that there was (and remains) a number of research gaps on the topic of offshore business process outsourcing (Hirschheim, Dibbern & Heinzl, 2008; Lacity et al., 2011b; Schmeisser, 2013; Pisani & Ricart, 2016). While ITO has been an area of academic interest for at least three decades, new phenomena have appeared in the outsourcing landscape (Liang et al., 2016; Lacity, Khan & Yan, 2016). As noted in Chapter Two, one such aspect is that IS outsourcing has moved beyond the boundaries of the IS function to include entire information technology supported business processes (referred to in this research as Business Process Outsourcing (BPO)). In addition, BPO has moved beyond national boundaries to service providers located in low wage countries such as India (Hirschheim et al., 2008; Carmel & Tija, 2005). The view of Hirschheim et al., (2008) is supported by King and Torkzadeh (2008) who have observed that despite the scale of the phenomenon, there has been inadequate theory development for OBPO. While research on OBPO has been growing in recent years, Mihalache and Mihalache (2016) observe that understanding the key factors influencing decision-making for OBPO remains surprisingly limited.

As noted by Hatonen and Eriksson (2009), two fundamental research gaps from the perspective of practicing managers involve determining how success in OBPO should be measured, and then understanding the factors that contribute to successful management of OBPO. This research has sought to address those two research gaps and also others as set out in Chapter Two.

## **1.4 RESEARCH PROBLEM AND RESEARCH QUESTIONS**

An initial review of OBPO literature identified research gaps in terms of designing effective OBPO strategy, and identifying specific management actions that contributed to OBPO success. A further research gap was that criteria for measuring "OBPO success" required further investigation (Hatonen & Eriksson, 2009). This research set out to address these particular research gaps, and others that were subsequently identified, such as explanations for the persistence of the captive model for OBPO.

A goal of this research project was to begin the construction of theory for explaining and predicting success in OBPO. In terms of Gregor's taxonomy of information systems theories,



the goal of this research was to generate Type 4 theory (Gregor, 2006), namely to “explain and predict”. According to Gregor (2006), to develop Type 4 theory requires that relationships between antecedent conditions and “success” be explained and that propositions be tested with a view to confirming strength of relationships. While one aim of the research was to make recommendations for practice, it was not intended to make prescriptive statements. Hence, in terms of Gregor’s (2006) taxonomy, the aim was Type 4 theory (explain and predict) rather than Type 5 theory (the latter being theory for design and action).

A key research objective was to investigate the phenomenon from the perspectives of both the client company and service provider, which in turn required data collection in the countries where the client companies and OBPO service providers were located.

Investigating the research problem required that the perspectives and actions of people located in several different countries and cultures be understood, and furthermore that for the purpose of theory development these actions be understood within a specific business context (Whetten, 1989).

The research problem under investigation was also seen to be highly relevant to the needs of business practitioners, and one aspect of the research objectives was to make a practical contribution to improved decision-making regarding OBPO. Based on the research gap identified by Hatonen and Eriksson (2009) regarding the determinants of OBPO success, this led to a focus on identifying critical success factors in the management of OBPO at the level of individual companies. Hence, developing Type 4 theory that could both explain and predict had practical as well as academic significance.

Therefore, a fundamental objective for this research was to identify factors that contribute to success in offshore business process outsourcing, and develop a framework that could provide guidance to managers. Noting that the captive model for offshore BPO continues to be prevalent but under-researched (Oshri & van Uhm, 2012), another key gap that this research addressed is the nature of the value proposition that captive centres deliver to the parent company (Balaji et al., 2012).

The primary research question can be expressed as follows:

*“What are the key factors that contribute to the success of offshore business process outsourcing by Australian and international organisations to service providers located in India and the Philippines?”*

To address this primary research question and to build type 4 theory (Gregor, 2006) required that “when”, “how” and “why” questions be explored within the business context of Australian and international organisations that were actually engaged in offshore business process

outsourcing (Yin, 1994; Whetten, 1989). Hence, a case study approach was considered to be an appropriate research design.

Secondary research questions were as follows:

1. *What is the structure of OBPO and OITO services industry in India, and how is this likely to affect Australian firms?*
2. *What is the size and capability of industry, actual and projected growth rates and likely evolution over the next three years?*
3. *What is relative value and importance of Australian firms as customers?*
4. *What is the value proposition for Australian firms that outsource Business Processes to service providers located in India?*
5. *What are the business drivers that cause Australian and international firms to consider OBPO to service providers located in India?*
6. *What is the extent of the practice and the degree of success of Australian and international firms?*
7. *What is the definition of “success” for Australian and international firms that outsource Business Processes to firms located in India, and how accurately can success be measured?*
8. *What are the key risks associated with OBPO to service providers located in India?*

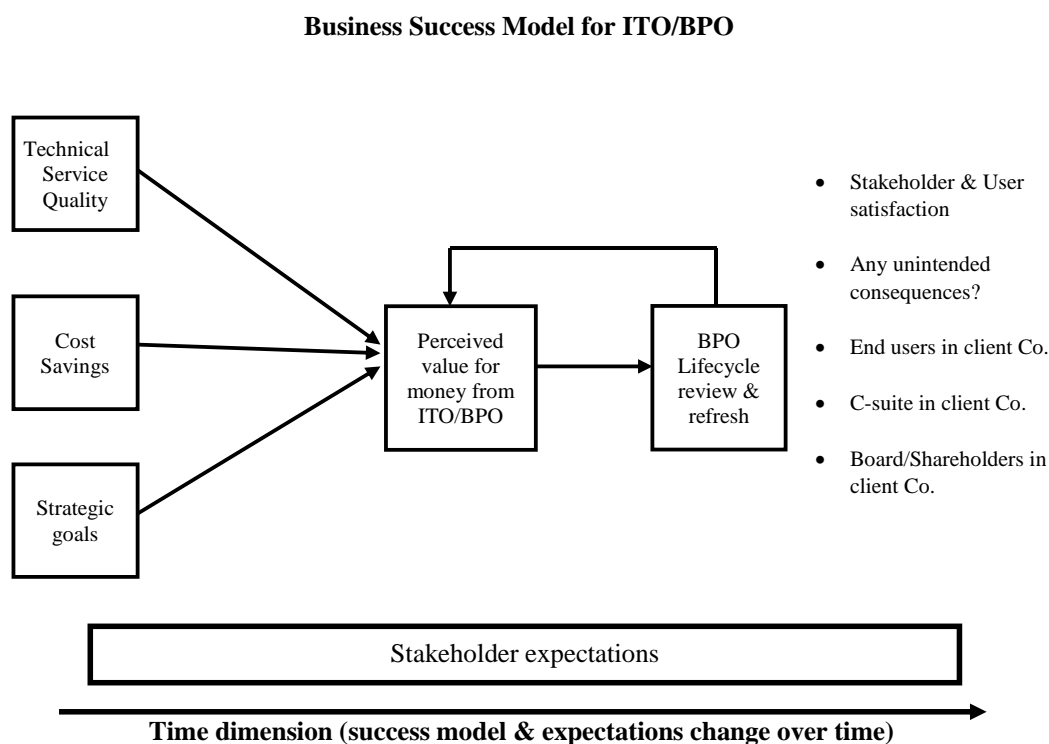
#### **1.4.1 Client companies’ success criteria for OBPO**

As is discussed further in Chapter Two (Literature Review), there are frequent references in the OITO/OBPO published literature to the absence of a broadly accepted framework for measuring whether OITO and OBPO initiatives have been successful in achieving business outcomes (Dibbern, Goles, Hirschheim & Jayatilaka, 2004; Cullen, Seddon & Willcocks, 2008; Wüellenweber, Beimborn, Weitzel & Konig, 2008a; Hatonen & Eriksson, 2009).

Hence, one objective of the research has involved the development of a model for evaluating OBPO success which is depicted in Chapter Three, figure 3.2 and reproduced below as figure 1.1. This OBPO success model draws upon concepts for *BPO success* proposed by Rouse and Corbitt (2004) and contains the elements of cost savings, technical service quality and strategic issues, and also includes the dimension of stakeholder satisfaction judged relative to expectations as proposed by Seddon, Cullen and Willcocks (2002). Contractor et al. (2010) argue that cost reduction has been the primary motivation for OBPO, and that two other strategic motivations have gained in importance. Firstly, seeking external knowledge and

expertise to bolster internal company capabilities. Secondly, positioning the client company to better understand and possibly to exploit offshore markets that may be available in the OBPO service provider location.

**Figure 1.1 Success Criteria for organisations that are conducting OBPO**  
(Source: Penter, Pervan and Wreford, 2009b)



#### 1.4.2 Critical success factors for managing OBPO

One of the objectives of this research is to develop academic theory that may provide guidance to practicing managers who have responsibility for designing and implementing OBPO strategy. To assist in achieving this objective, a research framework for OBPO strategic and investment decisions has been developed and is described in more detail in Chapter Three. The research framework has been based on a Critical Success Factors (CSF) approach. CSF are defined as those areas of activity, generally few in number, in which positive results will ensure successful business outcomes (Bullen & Rockart, 1981). To guide effective OBPO strategy and implementation, CSF must be applied in a manner that is well aligned with a client company's business context, and have also been characterised as "things that must go right", or those factors where favourable results are absolutely necessary to achieve satisfactory business outcomes (Bullen & Rockart, 1981).

From the Literature Review that is presented in Chapter Two, a series of research gaps and key themes were identified. Interviews with practitioner executives were conducted through an initial exploratory field study, which provided the opportunity to refine and specify in more detail each of the key themes and critical success factors. This enabled a series of factors to be selected on the basis that these were important in determining the business drivers (or motivation) that lead companies to consider offshore outsourcing, the key decisions that were involved in implementing OBPO, and also the OBPO outcomes being sought and obtained.

Prior research on Critical Success Factors for OBPO appears to be scarce, and comprehensive frameworks for effective organisational-level OBPO strategy development and implementation appear to be absent from the literature.

As far as the author can establish, this research represents the first effort to develop a comprehensive CSF model for OBPO combining the perspectives of both clients and suppliers and with a particular focus on the offshore outsourcing of knowledge-intensive, higher value-added activities.

Referring to BPO, Lacity et al., (2008) report that senior executives are facing a “dizzying set of evolving choices” in terms of sourcing locations, engagement models and service offerings by suppliers together with maintenance of an appropriate in-house capabilities. This wide range of choices becomes a source of “constant conflict” in the advice presented by ITO/BPO literature, a view supported by Cullen et al., (2005) who report that organisations now face an “inestimable number of choices”. Jensen et al., (2013) argue that many firms underestimate the challenges associated with OBPO and that factor frequently undermines the achievement of OBPO goals.

Hence, the results obtained from this research (and especially the framework for effective management of OBPO) may be relevant to practicing managers in Australian and other international client companies. In addition, the research may also be of interest to academics engaged in the business and information systems disciplines, legislators, regulators and policy-makers and their colleagues in India and other countries that are significant contributors to offshore BPO.

## **1.5 OVERVIEW OF RESEARCH METHODS**

### **1.5.1 Research Philosophy**

The philosophy adopted for this project can be described as positivist qualitative research utilising case study methods. A fundamental reason for adopting a positivist research approach

was that an overarching goal was to develop theory that could assist in identifying critical success factors for management of OBPO, and hence increase predictive understanding of the OBPO phenomenon.

However, there was an initial exploratory phase of the research which lasted for 12 months, and which was to some extent shaped by the interpretive research philosophy. During the exploratory phase, one of the goals was to develop an initial understanding of how actors in different countries and cultures constructed their own realities in respect to the OBPO phenomenon. In the exploratory phase, there were no predefined dependent and independent variables. There was a conscious attempt by the researcher to understand the offshore phenomenon through the meanings that actors in different countries and cultures assigned, and to focus on the complexity of human sense making, both in the client company and the service provider (Klein & Myers, 1999).

During the exploratory phase, the principles for conducting interpretive field research as outlined by Klein and Myers (1999) were applied. The approach to understanding the data being collected during the exploratory field study was a form of the hermeneutic circle (Klein & Myers, 1999). This enabled shared meanings to be derived from the data gathered through interviews, initial case studies, observations and focus groups which were primarily conducted *in situ* in client companies and their service providers.

In a subsequent phase of the research, the meanings derived from data collected in the exploratory field study were combined with themes derived from the Literature Review to construct propositions that were tested through in-depth longitudinal case studies. This is discussed further in Chapter Four, sections 4.5 and 4.6 which deal respectively with case study analysis and validation of the critical success factors framework that was a primary objective of this research (see also Chapter Four, section 4.2.3 which discusses research questions in more detail).

In overall terms, the research philosophy was positivist with some aspects of a plural approach in the initial exploratory phase. Qualitative research methods are designed to help researchers to understand the decisions and actions of people in the contexts within which the actions have taken place (Myers, 2009). Case study research was selected because the research problem could be approached by obtaining empirical evidence from real people in real organisations, in order to make an original contribution to knowledge of OBPO (Myers, 2009).

Hence a qualitative research design based on multiple case studies was seen as the most appropriate approach to investigating the research problem. The research approach closely matched Yin's (1994, p. 13) definition that a case study is an empirical enquiry that:

- “investigates a contemporary phenomenon (OBPO) within its real-life context, given that the boundaries between OBPO as a phenomenon and the business context within which it occurs are not clearly evident.”

The in-depth longitudinal case studies conducted as part of this research involved five Australian and global client companies engaged in OBPO together with their service providers which were located primarily in India and also the Philippines.

### **1.5.2 Justification for this research philosophy and approach**

At the commencement of this research project, analysis of existing research literature led to the conclusion that the requirement was for phenomenon-driven research questions (Eisenhardt & Graebner, 2007) that were broadly scoped. As many academic papers have argued (see for example Youngdahl & Ramaswamy, 2008; Hirschheim et al., 2008; Schmeisser, 2013; Pisani & Ricart, 2016), there was a lack of existing theory and empirical evidence for explaining the growth of OBPO. In order to make a contribution to practice it was also necessary to understand and articulate the management actions that would increase prospects for success in OBPO. The justification for the research rested on the economic scale of OBPO and the relative scarcity of theory for explaining and predicting how organisations could be successful in conducting OBPO (Hatonen & Eriksson, 2009).

### **1.5.3 Research phases**

The methodology used in this research project involved an initial exploratory field study followed by longitudinal, in-depth case studies of Australian and global companies engaged in OBPO and their service providers which were located primarily in India and also in the Philippines. The research design involved five phases which are summarised below:

Phase One:

Literature Review, formulation of initial research questions, development of the initial research framework and design of the research, leading to formal approval of PhD candidature.

Phase Two:

Exploratory field study, involving significant data collection “on the ground” in India through site visits, interviews and review of archival documents. Initial interviews with a range of client companies and their service providers. Initial selection of case studies.

Phase Three:

Data collection via in-depth case studies. Open coding and axial coding of data collected through interviews, focus groups and review of archival documentation.

Phase Four:

Development of a framework for successful management of offshore BPO, based on identification and confirmation of critical success factors. Validation of the critical success factors model via publication in journals and book chapters.

Phase Five:

Finalisation of PhD thesis and publication of journal articles and book chapters.

## **1.6 UNDERPINNING THEORIES USED IN THE RESEARCH**

Four theoretical lenses have been applied in developing the research findings presented in this research; transactional cost economics (TCE), resource-based view of the firm (RBV) combined with organisational learning and Institutional Theory. Each of these theories and their application to OBPO are discussed in more detail in Chapter Two (Literature Review), and their application to the development of a research framework and propositions that were tested in the longitudinal case studies is discussed in Chapter Three (Research Framework) .

Noting that the OBPO phenomenon has been driven by factors that transcend cost considerations alone, Youngdahl et al., (2008) argue that multiple perspectives are required to understand the diversity of strategic, operational and organisational factors that emerge from the OBPO phenomenon.

Transaction cost economics (TCE), which Lacity, Willcocks and Khan (2011) report has been the most frequently applied underlying theory used in published empirical research on OITO and OBPO, has traditionally been concerned with the boundaries of the company and “make or buy” decisions (Williamson, 1979). Hence, TCE has explanatory power for OBPO decisions where a primary motivation of the client company is cost reduction. However, Lacity, Willcocks and Khan (2011a) argue that the ITO/BPO phenomenon is more complex than can be accommodated by one underpinning theory. Their views are supported by Miranda and Kim (2006) who argued that a combination of institutional theory and TCE was necessary to gain a deeper understanding of outsourcing of services.

Institutional theory provides a complementary view of OBPO decision-making in organisations (Scott, 2005), and has contributed to an understanding of the environmental

factors that influence management decision-making in OBPO. For example, the rush of Fortune 500 companies following General Electric, American Express and British Airways to establish OBPO to India could be seen to result from imitative behaviour as management sought legitimacy, resources and survival capabilities by following norms laid down by the successful early adopters (McKinsey, 2004).

A resource-based view (RBV) leads to an understanding that sustainable competitive advantage is obtained from certain resources and/or hard-to-imitate capabilities that a particular company is able to obtain and mobilise faster and to a greater extent than competitors (Barney, 1991). It has been argued that OBPO is a resource seeking mechanism and that RBV combined with organisational learning perspectives is important for understanding OBPO as a strategic rather than purely operational practice (Mihalache & Mihalache, 2016).

In summary, a number of researchers have observed that a combination of underlying theories may offer a deeper understanding of ITO and BPO management decisions and outcomes (Miranda & Kim, 2006; Perrin, 2007; Jayatilaka & Hirschheim, 2009; Lacity et al., 2011a), and that is the approach adopted in this research. Referring specifically to OBPO, Lahiri and Kedia (2011), Tate, Ellram, Bals and Hartmann (2009) and Mihalache and Mihalache (2016) provide support for the view that application of a combination of underlying theories can provide additional insight and explanatory power for the OBPO phenomenon. The insights obtained from application of each of these theories to the data collected in the longitudinal case studies is discussed in more detail in Chapter Six, section 6.4.3 (Underpinning theories applied to the CSF model).

## **1.7 OVERVIEW OF RESEARCH OUTCOMES**

A primary contribution of this research arises from identification and validation of a set of critical success factors for management of OBPO at the individual company level, and from the development of a CSF framework (see figure 1.2 below) that has been validated through longitudinal case studies. As a result of insights gained through the longitudinal case studies, the CSF framework evolved and changed, and this is discussed in more detail in Chapter Seven, section 7.3 (Design changes that occurred in the course of this research). A further contribution has been to develop a model (or set of criteria) for measuring or evaluating a client company's degree of OBPO success (refer to figure 1.1 above) that builds upon earlier research by Cullen et al., (2008) and Wüellenweber et al., (2008a). This OBPO success model has been validated through the case studies, and addresses a research gap highlighted by Hatonen and Eriksson (2009) who noted that a fundamental problem in outsourcing research was determining how each company's degree of OBPO success should be measured.



Another outcome from this research (i.e. contribution) has been identification and development of the value proposition offered by OBPO captive operations, especially for activities that can be classified as knowledge-intensive services.

A shared characteristic of all of the longitudinal case studies presented in this research is that the activities that are subject to OBPO involve knowledge-intensive services. Hence, these case studies involve a large amount of tacit knowledge (Smith, 2001) that must be transferred initially to the OBPO supplier, and subsequently, exchanged via a two-way process between the client and OBPO supplier, and a high degree of reciprocal interdependence between various sub-tasks that must be coordinated to achieve successful business outcomes. Chapter Five provides more detailed information for each of the individual case studies that were conducted as part of this research.

In order to analyse each of the client company cases, an analytical framework was developed which is summarized in figure 3.1 in Chapter Three (Research Framework). The framework used for client company analysis consisted of three broad areas of focus:

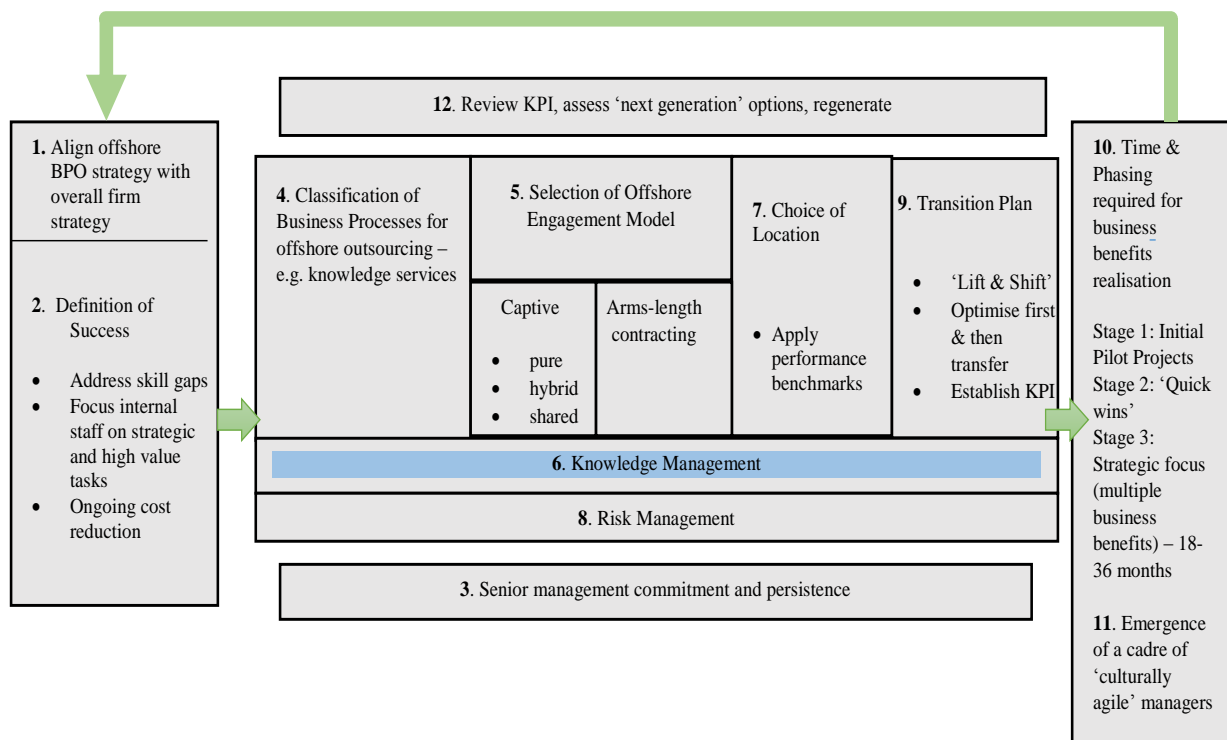
- i. What was each client company's motivation (or definition of success) for conducting OBPO?
- ii. What choices did client company senior management make in respect to the critical success factors for conducting OBPO (e.g. choice of location and engagement model, relational governance model, managing cultural differences, knowledge management)?
- iii. What OBPO outcomes were achieved?

For supplier case studies, a different analytical approach was adopted that took into account the suppliers' key value propositions in delivering OBPO, their overall business strategy and the key challenges that they faced.

Chapter Six presents an analysis of the qualitative data gathered in the longitudinal case studies. This data has allowed the research framework and propositions developed in Chapter Three to be tested and analysed so that cross-case comparisons can be made and conclusions can be drawn. These comparisons and conclusions are presented in Chapter Six, while Chapter Seven incorporates answers to the research questions, and also presents the original contribution of this research together with limitations and suggestions for future research.

**Figure 1.2 Critical Success Factors framework for effective management of OBPO**  
(Source: Penter et al., 2009b)

**Framework for Effective Management of Offshore BPO**



## 1.8 THESIS OVERVIEW

This research is divided into seven Chapters, as summarised below. Chapter One provides an introduction to the topic and to the thesis, and includes an overview of the research problem and research questions, the research methodology adopted, the theoretical lenses which were applied in order to gain insight into the problem and a summary of the outcomes obtained.

Chapter Two provides a review of the existing literature on OBPO, identifies major themes from this literature and gaps where further research is warranted. The major themes and gaps identified in Chapter Two are utilised to develop the research framework and propositions that are described in Chapter Three. The third chapter also provides definitions and explanations for each of the propositions that were used to test and verify the OBPO critical success factors management framework that was one of the key objectives of this research

Chapter Four provides a description and justification for the research methods that were used in this research to collect and analyse data, and to reach the conclusions that are presented in Chapter Seven. Specific topics addressed in Chapter Four include:

- Selection of research method
- Description of the research design
- Selection of case studies

- Case study data collection and analysis
- Development of the research framework and propositions

A description and analysis of each of the eight individual longitudinal case studies that formed part of this research is set out in Chapter Five, while Chapter Six provides cross case comparisons and analysis of the propositions and research framework that were originally developed in Chapter Three.

Chapter Seven sets out conclusions from the research including answers to the research questions, identifies key original contributions (both theoretical and in terms of guidance for practising managers) together with limitations and directions for future research.

## **1.9 CHAPTER SUMMARY**

This Chapter provides an overview of the entire research. Noting that OBPO is an economic phenomenon of global size and impact, and one that is continuing to grow strongly, the first two sections provide definitions of the phenomenon under study, its scale and key characteristics and the areas of focus for this research project.

Section 1.4 sets out the research problem and research questions, while section 1.5 provides an overview of the research philosophy and methods adopted, including the five major phases in the research. Section 1.6 summarises underpinning theories used in the research while section 1.7 presents a brief overview of outcomes.

The following Chapter Two (Literature Review) identifies gaps in previously published research on OBPO, and identifies key themes in the literature which assist in addressing the research questions.

## CHAPTER 2 LITERATURE REVIEW

### 2.1 INTRODUCTION

The purpose of this Chapter is to identify what is already known in the areas being addressed by the research questions, to identify gaps in previously published research on Offshore Business Process Outsourcing (OBPO), and to suggest emerging theory that may have explanatory power with respect to the research questions under study. The research questions addressed in this research are derived and justified from the review of literature, and if addressed, would contribute to both theoretical knowledge of OBPO and also make a practical contribution to overcoming some of the problems identified in the quotation below.

*“In my experience, particularly in 10 years of looking at different business cases with offshoring and labour cost arbitrage, the number of disappointments that you get at service levels and operational risk from the people that are actually doing this for you overseas, never gets factored well enough into business cases.”*

Ian Narev, CEO Commonwealth Bank of Australia, quoted in Smith, (2012),  
Australian Financial Review, 20 April

The above quote illustrates typical pressures that OBPO generates for practitioners (i.e. executives) who are required to make decisions about OBPO strategy on behalf of their company. Noting the practitioner insights quoted above regarding the number of disappointments that can be associated with OBPO, an objective of this research was to identify critical success factors in OBPO, and to propose a management framework that increases the prospects of success.

The quote also illustrates that the unit of analysis for this research is the individual company (“firm”) and that the interests being served by this research are managers in firms that are engaged in OBPO, together with their staff, end customers and shareholders.

### 2.2 FRAMEWORK FOR ORGANISING THIS LITERATURE REVIEW

The guidelines provided by Webster and Watson (2002) were utilised for conducting and organising this literature review. Searches were made for BPO and OBPO journal articles via OneSearch which provides access to a range of databases of scholarly articles including ABI Inform, JSTOR, EBSCO, ProQuest and other searchable academic journals. Searches were made initially using the terms and related acronyms as follows:

“business process outsourcing”, “BPO”

“business process outsourcing” AND “offshoring”

“OBPO”

Section 2.4 below provides further discussion of the definitions and inter-relationships between the terms “offshoring”, “outsourcing”, “business process outsourcing (BPO)” and “offshore business process outsourcing (OBPO)”. This research is focused on offshore business process outsourcing (OBPO).

Noting advice from Dibbern et al., (2004) that research into the OBPO phenomenon should build on what has been learnt from two decades of research into Information Technology Outsourcing (ITO), searches were also made using similar ITO terms and constructs, and also using the term “offshore outsourcing”.

As a first step, published articles that provided a survey and/or analysis of Information Technology Outsourcing (ITO) and Business Process Outsourcing (BPO) research articles were reviewed (see for example Dibbern et al., (2004); King & Torkzadeh (2008); Lacity et al., (2011b); Schmeisser (2013); Gonzalez, Llopis & Gasco (2013); Liang et al., (2016); Mihalache & Mihalache (2016); Pisani & Ricart (2016); Lacity et al., (2016); Lacity, Yan & Khan (2017)) and common themes were identified. A total of 22 articles that contained a survey and/or analysis of ITO/BPO literature were selected. These articles, which are tabulated below in section 2.12, had publication dates ranging from 2004 to 2017. The bibliographies of each of the selected articles were screened for additional references that broadened the author’s understanding of the phenomenon that was being investigated.

In conducting this literature review, it was noticeable that there were two broad research disciplines that had been conducting studies on OBPO, and that there were few connections between the bodies of OBPO research in each of these two disciplines, as noted by Mihalache and Mihalache (2016, p. 1104) referring to “*fragmentation of existing research due to limited cross-fertilisation between the many research fields studying the phenomenon*”. These two disciplines where much of the OBPO research has been conducted are Information Systems (IS), also referred to above as Information Technology Outsourcing, and International Business (IB). Research articles on offshoring of services or OBPO have also appeared in Operations Management journals (see for example Journal of Operations Management 26 (2008) Special Issue on offshoring of service and knowledge work), and in journals dealing with Marketing and Human Resources.

As an example of the fragmentation referred to by Mihalache and Mihalache (2016), Pisani and Ricart (2016) conducted a systematic review of literature on offshoring of services and considered only articles published between 1990 and 2014 in a select group of leading

International Business (IB) journals, although these authors subsequently conducted an *ad hoc* review of offshoring articles from three leading IS journals (Pisani & Ricart, 2016). Similarly, Schmeisser (2013) conducted a review of offshoring literature based only on articles selected from what were considered to be leading IB journals.

The parameters used to select articles for inclusion in literature reviews obviously introduce one source of bias. From the IS discipline, Gonzalez et al., (2013) conducted a literature review of information systems offshore outsourcing that considered 89 articles from 17 leading IS journals. The literature review by Gonzalez et al., (2013) is helpful in identifying broad offshoring themes in an IS context, but does not contain any specific research on OBPO, and also misses the rich vein of IB research on offshoring of services. On the other hand, Schmeisser (2013) reviewed 63 articles from 14 leading IB and management journals and hence misses the rich vein of offshore ITO and BPO literature that has come from the IS research discipline.

Both the IS and IB disciplines are covered by Lacity et al., (2011b) in their critical review of BPO empirical research studies. However, Lacity et al., (2011b) exclude from their literature survey any papers dealing with captive centres and related spin offs, and in selecting only empirical studies, also exclude theoretical contributions, both of which represent significant limitations. For example, a widely cited conceptual paper by Contractor et al., (2010) on offshoring of high-value activities is excluded from the sample of papers reviewed in Lacity et al., (2011b).

In conducting this literature review, a systematic analysis was conducted of articles from both IS and IB disciplines. The methodology adopted for selecting articles for inclusion was a similar but less formal version of path and citation analysis to that conducted by Liang et al. (2016), a literature review that is noteworthy for spanning both the IS and IB research disciplines and for providing citation networks for ITO, BPO and offshoring.

The methodology adopted for selecting articles that have been utilised in this literature review can be described as “heuristic”, in that it was based initially on key word searches similar to that adopted by Lacity et al., (2011b), followed by consideration of citation counts and citation networks. It is acknowledged that the selection of papers for inclusion in this literature was to a certain extent subjective, which inevitably introduces sources of personal bias.

See table 2.1 below for a summary of themes that emerged from the initial and subsequent stages of this literature review, and where these themes are further analysed in this chapter. Selection of themes was on the basis that these were the factors that were commonly identified as critical success factors for OBPO.

The over-arching logic that was adopted for identifying key themes in the literature is depicted in table 2.1. *Firstly*, it is assumed that client companies conducting OBPO have a series of motivations or drivers for conducting OBPO, and these drivers are translated into management intentionality. *Secondly*, management intentionality leads to a series of actions and decisions that are aimed at increasing prospects of OBPO success and/or improving outcomes. This second component could be characterised as “the offshoring organisation in action” (Schmeisser, 2013). *Thirdly*, that over time as management in both the client company and its OBPO service providers gain knowledge from experience with company-specific OBPO activities, that there will be dynamic adaptations aimed at increasing gains and/or responding to changes in business context.

**Table 2.1      Overarching logic for identifying major themes in OBPO research literature**

<b>What are companies' motivations and objectives for conducting OBPO?</b>	<b>Management actions &amp; decisions that increase prospects of OBPO success</b>	<b>Increasing OBPO sourcing flexibility (learning and adapting from OBPO experience)</b>
<ul style="list-style-type: none"> <li>- competitive pressures</li> <li>- globalisation</li> <li>- company-specific drivers &amp; business context</li> <li>- disaggregation of value chain and selection of business processes for OBPO</li> <li>- institutional influences</li> <li>- degree of prior offshoring experience</li> </ul>	<ul style="list-style-type: none"> <li>- factors unique to OBPO</li> <li>- developing &amp; executing OBPO strategies</li> <li>- coordinating OBPO relationships across company value chain</li> <li>- managing institutional distance between client companies and OBPO service providers</li> <li>- arrangements for governance and coordinaton of OBPO</li> </ul>	<ul style="list-style-type: none"> <li>- adapting OBPO strategy and execution to changing business context</li> <li>- building OBPO capability</li> <li>- increasing company knowledge of OBPO and dissemination to key internal stakeholders (i.e. organisational learning)</li> <li>- managing and updating a company's portfolio of OBPO engagements (OBPO configuration)</li> </ul>

The organisation of this Chapter is around four broad concepts. Firstly, the literature associated with the size, scope and major locations for OBPO is reviewed, and relevant definitions introduced. The objective of this first concept phase is to define more precisely the phenomenon that is under study, and also to make explicit the boundaries. The second concept phase deals with major themes that have been identified from the literature review. The third concept phase aims to summarise and clarify research gaps that have been identified in prior reviews of the literature on offshore ITO and BPO.

Finally, the specific research gaps that have generated the research questions are summarised, with a view to developing a research framework and propositions (refer to Chapter Three) and determining an appropriate choice of research methods and data collection techniques (see Chapter Four for details).

The approach utilised in conducting this literature review draws upon a framework advocated by Vom Brocke, Simons, Niehaves, Reimer, Plattfaut and Cleven (2009) and adapted by Strasser and Westner (2015) to Information Systems Offshoring, involving the stages of *why*, *what*, *which*, *how* and *outcomes* applied to the OBPO phenomenon as defined in section 2.4 below. In terms of the taxonomy of literature reviews presented by Cooper and Hedges (2009), the review presented in this Chapter Two can be characterised as shown in table 2.2 below:

**Table 2.2 Cooper and Hedges taxonomy applied to Chapter Two**

Categories	Characteristics and/or description
Focus	Research findings, management practices
Goal	Identification of central themes or issues
Perspective	Neutral representation
Organisation	Representative of major themes
Audience	Specialised academics and practitioners

The detailed organisation of this Chapter is summarised in table 2.3 below:

**Table 2.3 Framework for organising this Literature Review**

Concept Phase Number	Themes in this Literature Review	Section reference numbers
1	Defining the OBPO phenomenon, market size, structure and boundaries	2.3, 2.4
1	Classification schemes for OBPO activities, and selection of activities for OBPO	2.4.3 & 2.4.4
2	Selection of engagement model for OBPO	2.5
2	Choice of offshore locations	2.6
2	Managing cultural differences and distance- induced management costs	2.7
2	Relational governance of OBPO activities	2.8
2	How is success measured in OBPO	2.9
2	Theoretical “lenses” for analysing OBPO	2.10
2	Strategy options for OBPO	2.11
3	Identifying research gaps for OBPO	2.12
3	Methodology for reviewing prior literature to identify potential research gaps	2.12.1
4	Conclusions, major research gaps being addressed in this research	2.13



### 2.3 SIZE OF THE OBPO PHENOMENON

It is the global scale of the OBPO phenomenon that makes this both an interesting and important research topic. This section utilises published sources to derive an estimate of the OBPO market. Comparable estimates of the size of the global BPO market (i.e. combining both domestic and OBPO) vary widely in published academic papers, ranging from \$1.2 trillion per annum (Yang, Kim, Nam & Min, 2007) to \$140 billion (Willcocks et al., 2009) to \$127 billion per annum (Whitaker, Mithas & Krishnan 2011). One possible explanation for the wide variation in estimates is that some sources appear to combine both global ITO and BPO. There may also be problems of definition of the phenomenon under study that contributes to the wide variations, and this is addressed further in section 2.4 below.

Analysis of the varying estimates of the global BPO market that have been published in academic references also indicate that these are often based on primary data sourced from industry consultants such as Gartner, IDC, Everest or McKinsey, or an industry association such as NASSCOM in India and/or Business Processing Association Philippines (BPAP). Consulting firms that derive revenue from BPO activities may have an inherent bias towards inflating estimates of market size and rates of growth, so this data needs to be treated with caution.

Variations in definitions of what is included in the category of global BPO services will also impact on estimates of market size. For example, Gartner base their estimates of global BPO services on BPO activities in vertical markets including banking, financial services and insurance, human resources, procurement, back-office administration, legal call centres and customer service. Not included in Gartner's definition of BPO are activities such as content creation (e.g. publishing and printing services), animation and medical transcription.

The Indian industry association NASSCOM (National Association of Software and Services Companies) has applied considerable effort over more than a decade to develop and report accurate data for the size of the ITO and BPO market in India. At various times, NASSCOM has also worked with research firms such as McKinsey and Everest to apply greater independence and rigour to the task of deriving accurate forecasts for ITO and BPO market size. However, NASSCOM reports that it experiences difficulty in deriving accurate valuations for the work performed in India by captive BPO operations (also known as "Global In-house Centres") as these are not usually members of NASSCOM. Refer to section 2.5 for a further discussion on OBPO engagement models (also referred to in some academic articles as OBPO "governance modes").

The research firm Everest has developed a database on captive BPO operations in India, and the data published by Everest since the 2009/10 Financial Year has been used as an initial

basis to estimate the value of BPO activities performed in India through captive operations. In Table 2.4 below, figures are provided over an eight-year period in order to illustrate both the historical rate of growth in the OBPO industry and also the persistence of the captive model. Based on forecasts provided by Everest, a forward-looking forecast is also provided for FY20. ([www.everestresearchinstitute.com](http://www.everestresearchinstitute.com)).

Utilising data and analysis primarily obtained from Willcocks and Lacity (2009), Lacity et al., (2008) and Willcocks et al., (2009) and Oshri, Kotlarsky and Willcocks (2015b) as baseline sources, and updating using additional data from NASSCOM and Everest Research Institute ([www.everestresearchinstitute.com](http://www.everestresearchinstitute.com)), the global market for BPO services in 2009/10 was estimated at \$250 billion. The OBPO component in the same period was estimated at \$85-\$90 billion. OBPO delivered by service providers in India (including both captives and third-party vendors) was estimated at \$30-\$35 billion in FY10, with captive operations contributing \$6.25 billion and third-party vendors \$23.75 billion.

By 2013/14, Everest Group estimated that the global OBPO component had grown to \$137 billion, with a compound average annual growth rate over that 5-year period of 8%-10% (Everest, 2015). The same research ranked the leading service provider destinations for performing OBPO as follows:

1. India
2. The Philippines
3. Central and Eastern Europe (predominantly Poland)
4. China
5. Mexico

Refer to section 2.6 and table 2.8 below for more detail on major OBPO locations.

In summary, the global scale of the OBPO phenomenon is already large and forecast to continue to grow strongly. Hence this is a phenomenon requiring significant research focus. The table below summarises estimated OBPO global market size. Everest and other analysts report that Global In-house Centres (or “captive operations”) have represented about 30% of OBPO activity across that period.

**Table 2.4 Estimated OBPO global market size (USD billions)**

Financial Year	Third-party contracts	Global In-house centres (GIC)	Total market	GIC as a percentage of total
FY 10	\$60b	\$25b	\$85b	29%
FY 14	\$97b	\$40b	\$137b	29%
FY 16	\$113b	\$47b	\$160b	29%
FY17	\$120b	\$51b	\$171b	29%
FY18	\$127b	\$55b	\$182b	30%
FY20	\$140b	\$64b	\$204b	31%

[Note on table 2.4: Everest estimated the Global In-house Centre service provider industry in 2013/14 to represent approximately \$40 billion. The methodology utilised to calculate the value of OBPO performed in GIC was primarily based on reported head count employed in these centres, which clearly is an inexact measure. Everest reported 1,723 GICs in operation in FY14. These figures reported by Everest appear significantly higher than estimates provided by Oshri and van Uhm (2012) who reported an economic value in 2009/10 of \$12.3 billion based on 500 GIC in 34 countries employing over 440,000 professionals. Oshri and van Uhm (2012) appear to have based their estimates on primary data sourced from NASSCOM, and have mainly focused on GIC operated by large multinational companies (e.g. global Fortune 500). Figures for FY16 – FY20 in Table 2.4 above are based on estimates from Everest and NASSCOM (NASSCOM Indian IT-BPM Industry FY16 Performance and FY17 Outlook, February 2016, and NASSCOM Catalyzing the Ecosystem for a trillion dollar digital economy, February 2018)].

#### **2.4 DEFINITION OF OFFSHORE BUSINESS PROCESS OUTSOURCING (OBPO)**

It is important to define carefully the phenomenon under study, otherwise there is likely to be ambiguity in any conclusions reached, and the identification of research gaps is rendered almost meaningless without careful attention to definition. This section of the literature review aims to provide a more precise set of definitions as a foundation for analysis of the OBPO phenomenon and for identifying potential research gaps.

In defining BPO, some researchers have viewed BPO as a subset of IT outsourcing (ITO) (Robinson & Kalakota, 2004; Liang et al., 2016). This is understandable as academic literature on Business Process Outsourcing (BPO) has emerged after maturity of the literature on ITO (Lacity et al., 2011b), and BPO almost invariably is an IT-intense activity. According to

Dibbern et al. (2004), the earliest research papers on ITO were published in 1992 whereas academic research on BPO commenced much later with the first BPO research studies appearing around 2000, although developing quickly from 2007 onwards (Lacity et al., 2011; Schmeisser, 2013; Mihalache & Mihalache, 2016).

On the other hand, in a recently published review of empirical business services sourcing literature, Lacity et al., (2016) pooled ITO and BPO articles into a broader category that they referred to as “business services”, while Gerbl et al., (2016, p. 1039) referred to ITO as “a subset of BPO”.

In the broad context of offshore ITO and BPO, global service providers have built up competitive advantages through having access to a deep pool of well-educated professionals with proficiency in the English language (and other languages such as Japanese, German, Spanish and French) that are utilised in the home countries of client countries. The global suppliers of BPO services (usually referred to in the literature as “vendors” or “suppliers” and sometimes as “offshore service providers”) operate with “global delivery models” providing IT-enabled services from dispersed geographical sites. The deep and relatively low cost skilled labour pools in countries such as the Philippines, India, China, Poland, Russia, Mexico and Brazil has given a source of advantage to emergent service providers such as INFOSYS, TCS, Wipro, Genpact and WNS. These emergent companies are now competing on a global scale with established ITO/BPO companies such as IBM, Accenture and Hewlett Packard EDS that have also established operations in (for example) India where they also engage large numbers of employees from these deep talent pools. In addition, the terminology of “offshore service provider” also extends to an internal subsidiary operation (“captive” or “global in-house centre”) established in one of these locations that are attractive as a supplier of offshore services (Rottman & Lacity 2004, 2006; Youngdahl et al., 2008).

While the literature reports a number of definitions of “business process outsourcing”, these frequently exhibit similarities. A widely adopted definition of BPO is that originally propounded by research group Gartner.

*“Business process outsourcing (BPO) is defined as handing over to a third party responsibility for performing certain business processes that are required for an organization to carry out its mission”* [Gartner Group, 2002, quoted in Rouse and Corbitt 2007].

One shortcoming with the above definition is that it contains the implicit assumption that all BPO involves handing responsibility to a service provider that is external to the company or organization that is doing the outsourcing. However, as noted above and in more detail in section 2.5 below, in OBPO, a common engagement model involves

outsourcing to a so-called “captive” centre (or Global In-house Centre) that is a wholly or partially owned subsidiary of the parent company located in an offshore location (Oshri & van Uhm, 2012).

The definition of offshore Business Process Outsourcing (OBPO) draws upon the above definition, in that it involves the disintermediation (or disaggregation) of business processes that required for an organisation to complete its mission, and also draws upon the concept of deciding how each business process should be sourced both geographically and also organisationally (Contractor et al., 2010; Manning et al., 2017).

*Offshore Business Process Outsourcing (OBPO) refers to the disaggregation and global sourcing of both administrative and more knowledge-intensive business processes that are essential components of a company’s value chain (i.e. are essential to achieving its mission).*

#### **2.4.1 Globalisation and competition as drivers of growth in OBPO**

Fundamental drivers of growth in OBPO are the relentless forces of competition and globalisation, which have been causing companies to reconsider the configuration of their value chains (Contractor et al., 2010). These twin forces have caused the boundaries of many companies to have simultaneously shrunk organisationally and expanded geographically while becoming more permeable. Intensification of competition in many industries has driven companies to adopt OBPO initially and primarily to reduce costs, but increasingly to seek external knowledge inputs and expertise (“global race for talent”) and in some cases to better understand and exploit offshore markets (Lewin, Massini & Peeters, 2009; Contractor et al., 2010). Offshoring (global dispersion of the value chain) and outsourcing (restructuring of the value chain) are shifting from being seen primarily as operational tools for cost reduction to activities with strategic importance, closer to the core value-adding components of the company.

In the face of these challenges presented by globalisation and increased competition, a strategic challenge for senior management is to operate in a dynamic world where competitive advantages are created by sourcing components of the company’s value chain and knowledge in many parts of the world. Contractor et al., (2010) propose an approach to OBPO strategy whereby each company searches for an “optimal degree of disaggregation and global dispersion, noting that dispersion of the value chain brings benefits as well as increased complexity and costs”. These authors propose that a firm’s competitive advantage is:

*“its ability to analyse, coordinate and optimise along four related dimensions:*

- *degree of value chain disaggregation*
- *organisation form (the mix of internal, alliance-based and contractual modes)*
- *space or geography (spread of activities over nations)*
- *time (chronological coordination of distributed tasks)”* (Contractor et al., 2010).

#### **2.4.2 Characteristics that differentiate OBPO from OITO**

While it is clear from prior surveys of the literature such as Dibbern et al., (2004) and Lacity et al., (2011a) that research into OBPO has been able to build significantly on the earlier foundations laid by research into offshore ITO, it is also important to clarify the contextual differences.

Scholars have argued that OBPO represents a fundamental transformation in the boundaries of client companies (Contractor et al., 2010; Lewin & Peeters, 2006). Consistent with this theme of fundamental transformation Wüellenweber et al., (2008a) argue that for successful OBPO, domain knowledge or expertise needs to be higher on both sides of the relationship.

Successful OBPO creates new, unique capabilities by leveraging the competencies of both client and service provider (Wüellenweber et al., 2008a; Contractor et al., 2010), and hence delivers or enables *strategic* advantage in the form of business innovation, a point also made by Lacity et al., (2011a). Wüellenweber et al., (2008) argue that BPO differs from ITO in that there is greater complexity in Business Process Outsourcing (due to high degree of interdependency with other Business Processes).

Whitaker et al., (2011) also address the aspects of BPO that are unique, and point to interdependence of processes, complexity and direct interaction with end customers as distinguishing characteristics. Whitaker et al., (2011) do not specifically reference Wüellenweber et al., (2008) but clearly there is a high degree of overlap in the unique characteristics of BPO identified in both papers. Whitaker et al., (2011) also note that both ITO and BPO have a number of shared characteristics.

Reporting that companies are much more likely to adopt a captive engagement model for BPO (see also section 2.5), Lacity et al. (2008) argue that companies are seeking to retain greater control over BPO services which they view as critical to their operations, while also managing information transfer and protecting their intellectual property.

As noted in Penter and Pervan (2006, p. 2) “offshoring originally referred to a business decision to employ workers in another country to do the work once done by locals. It is a global expression of outsourcing as companies in western and/or high salary countries increasingly consider outsourcing business processes that do not contribute to competitive

advantage, or are not regarded as a fundamental part of their value chain (Grant, 2005; Davies, 2004; Oshri & van Uhm, 2012). Increasingly the offshoring model is moving up the value chain – to more core business functions - as businesses become more confident and knowledgeable and offshore service provider locations such as India and the Philippines become more capable at providing skilled and motivated labour with domain expertise” (Bhargava & Bhatia, 2005; Contractor et al., 2010; Oshri & van Uhm, 2012; Larsen, Manning & Pedersen, 2013). This leads to the importance of understanding the classification of business processes being considered for OBPO, and the selection of business processes suitable for OBPO (Gerbl, McIvor, Loane & Humphreys, 2015).

### 2.4.3 Classification schemes for OBPO activities

A review of the (still relatively scarce) research literature on OBPO indicates that discussion of classification of BPO activities began to appear from 2008 onwards and is still in the nascent phase (Lacity et al., 2011a). In the domain of offshore ITO, the importance of careful selection of the tasks to be outsourced has been identified (Carmel & Agarwal, 2002; Dibbern, Winkler & Heinzl, 2008; Gerbl et al., 2015), and its importance to OBPO success was identified by Aron, Clemons and Reddi (2005) who consider that careful attention to task classification can reduce risk in OBPO.

This author’s view is that an insightful BPO classification is to be found in Youngdahl and Ramaswamy, (2008). Niranjana, Saxena and Bharadwaj (2007) present an alternative OBPO taxonomy. The basic argument of these researchers is that OBPO started with work described as “fairly low level”, including contact centres and back office process, but has taken on increasing levels of complexity. Youngdahl and Ramaswamy, (2008) build their categorisation of OBPO around two constructs; *knowledge embeddedness* and *degree of service contact with end customers required* (also referred to as “interaction intensity”).

In this categorisation, debt collection (as an example) would rate high for how much knowledge is embedded in the work, and also high in terms of service contact with customers (i.e. interaction intensity). This second construct, degree of service contact with end customers, will require OBPO staff who can be empathetic, and highly skilled with respect to debtors’ language and cultures. In OBPO, staff engaged in high contact activities will need to be empowered to act in the best interests of both the end customers and of the client company; hence these OBPO activities have a variable, discretionary component and will require high domain knowledge.

Youngdahl and Ramaswamy, (2008) argue success of BPO activities with a high degree of service contact should be judged by placing greater emphasis on whether tangible benefits are

being delivered to end customers. This could be in the form of shorter wait times, 7 x 24-hour service availability or higher customer satisfaction with service outcomes. The term “technical service quality’ can be used to describe this type of OBPO success measure.

As noted in Penter, Pervan and Wreford (2008, p16), “various other classifications for the types of BPO activities are presented in the literature, and similarities with the classification schema presented by Youngdahl and Ramaswamy (2008) can often be observed. For example, BPO activities may be classified by the extent to which the task is unscripted and/or requires domain knowledge (Raman, 2007; Bhargava, 2006) as suggested by the following hierarchy, with knowledge or judgement-intensive activities at the top of the hierarchy:

- expert knowledge services (e.g. R&D, equities research, competitive analysis, ASIC design)
- direct customer interaction (e.g. credit collections)
- customer problem solving (e.g. approving insurance claims, altering credit card limits)
- rule set processing (e.g. frequent flier schemes, outbound telemarketing)
- data entry and conversion (e.g. medical transcriptions, email Help Desk responses)

Another form of BPO classification considers the extent to which business processes are core (i.e. key to firm success and strategic in nature), critical and non-critical (see for example Ramachandran & Voleti, 2004). It is common in academic and particularly trade publications to find reference to the assertion that OBPO is most suitable for low level, routine, non-core processes” (see for example Ramachandran & Voleti, 2004; Bhargava & Bhatia, 2005; Contractor et al., 2010; Gerbl et al., 2016). But research data and academic literature on the success or otherwise of OBPO initiatives appears contradictory on this point.

As noted by Wreford, Penter, Pervan and Davidson (2011, p. 3) “according to some published research, well-defined, measurable and self-contained processes which can be considered as “non-core competencies” might appear to be most suited to OBPO (Tas & Sunder, 2004). It is, therefore, reasonable to conclude that companies should take a core competency approach to selecting processes to move offshore.

Adopting the vendor’s perspective, Niranjana et al., (2007) propose a BPO taxonomy based on the dimensions of *criticality* and *complexity*. However, this approach tends to lead to protracted debate about the differences between core, critical and commodity processes (Aron & Singh, 2005)”.



#### **2.4.4 Knowledge services as an OBPO category**

Despite the conventional wisdom that OBPO should involve processes not to be considered core competencies of the client company, significant evidence has accumulated to the effect that greater significant business value can be created by utilizing highly skilled OBPO service provider staff to perform business processes which might be considered core or critical competencies (Carmel & Agarwal, 2002; Robinson & Kalakota, 2004; Tas & Sunder, 2004; Penter, Pervan & Wreford, 2009a; Contractor et al., 2010). Activities such as research and development (R&D), integrated circuit design, credit collection, OTSS fit the definition of <sup>1</sup>unstructured, judgement-intensive (or highly discretionary), non-scripted tasks with a requirement for high levels of domain knowledge and possibly also high levels of asset specificity. These activities are often referred to by some authors as Knowledge Process Outsourcing (KPO), or Knowledge Services.

Where OBPO involves Knowledge Services, potential difficulties involved in capturing, leveraging and protecting dispersed knowledge and intellectual capital can become a significant risk factor” (Oshri, Kotlarsky & Willcocks, 2007; Gerbl et al., 2016).

Contractor et al., (2010, p. 1431) argue that existing theories for OBPO have been developed to explain outsourcing and offshoring of low value company functions, and that these theories are inadequate for explaining the “unique processes and consequences associated with high value activities”. Moreover, Contractor et al., (2010) consider that the objectives for OBPO of high value activities need to be less operationally focused, more focused on company strategy, in which the goals simultaneously include developing new markets for its products, seeking knowledge and also cost reduction. Gerbl et al., (2016) also argue that many of the frameworks in current literature do not provide a full understanding of KPO, and note that when OBPO involves knowledge services that there will be a high degree of interdependence between decisions about which processes are suitable for OBPO, location choice and governance mode.

## **2.5 SELECTION OF ENGAGEMENT MODEL FOR OBPO**

For client (or source or host) companies located in Europe, Australia or North America that are seeking to utilise offshore sourcing models, a variety of ownership and relationship structures are possible with their offshore service providers. An early and fundamental

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<sup>1</sup> Penter, K., Pervan, G., & Wreford, J. (2008) *Case Studies on BPO and ITO at large captive operations in India*, p4.

decision for these companies is whether to establish a **captive operation** (i.e. wholly owned subsidiary) or some form of contracting relationship with an established service provider (Ramachandran & Voleti, 2004; Robinson & Kalakota, 2004; Gerbl et al., 2016).

An alternative form of nomenclature is to utilise the terminology **Global In-house Centre (GIC)** instead of captive operation or captive centre. Historically, the term “captive” has been used to describe offshore Business Process Outsourcing (BPO) performed in lower cost geographies in entities that are owned and operated by the same company receiving the services. The definition utilised by Oshri and van Uhm (2012, p. 270) is that:

*“a captive centre is a business unit that is owned and provides services to the parent firm from an offshore location”.*

As was noted in section 2.3, captive centres represent about 30% of OBPO activities, are estimated to involve more than \$40 billion USD annual in economic activities and employ more than 1.2 million FTE staff. Notwithstanding their economic significance, academic literature is very scarce about captive centres models and how these evolve, selection of business processes for transfer to captive centres and the value proposition that captives offer to the parent company (Oshri 2011; Oshri & van Uhm, 2012; Balaji et al., 2012; Gerbl et al., 2015).

Oshri and van Uhm (2012, p. 272) note that captive centre models can be classified according to the following table 2.5, and point out that the choice of captive centre model by a particular parent or client company is by no means constant and is likely to evolve over time.

**Table 2.5 Captive centre models (Source: Oshri & van Uhm, 2012)**

<b>Captive centre model</b>	<b>Description</b>
Basic captive	Provides OBPO services to the parent firm.
Hybrid captive	Provides OBPO services for core and/or high value processes to parent firm while outsourcing non-core processes to OBPO service provider through arms-length contract.
Shared captive	Provides OBPO service to both parent firm and also external firms.
Divested captive	Equity (ownership) of the captive operation has been divested either wholly or in part. Parent company contracts with divested captive for OBPO services.

Practitioner literature (see for example Institute for Finance and Operations) has identified a range of commercial options and ownership structures for performing offshore BPO, either through an arms-length contract with an OBPO service provider, or through some form of subsidiary owned by the client company. Table 2.6 below summarises potential options and ownership structures from practitioner sources.

Addressing BPO purely in a domestic context, Lacity, Feeny and Willcocks (2003) identified five possible engagement models that were considered by British Aerospace (BAE) before selecting an enterprise partnership model, which is analogous to a captive model in the context of OBPO (see also Feeny, Lacity & Willcocks, 2009).

**Table 2.6 Potential engagement models and relationship structures for OBPO**

**a. Options for arms-length contracts with OBPO service providers**

Type of OBPO model	Summary description
“Classic” offshore BPO	Contract for OBPO service provider to deliver an agreed scope and defined service levels, from a specific offshore location.
Offshore multi-sourcing	Client company contracts separately with several OBPO firms who may be in different offshore locations (e.g. India and the Philippines).
Global delivery via OBPO service provider	OBPO service provider operates multiple locations distributed globally, and determines best locations from which to deliver contracted scope and SLAs to client company
Hybrid global delivery	OBPO service provider combines an onshore (local) interface with the client company with offshore service delivery (a variation on global delivery).
Joint venture (JV) between client and service provider	Each party contributes capital, resources, knowledge and staff to a joint corporate entity that owns and manages the assets used to deliver OBPO. A JV may exhibit characteristics of either a captive and/or arms-length contract.

**b. Potential ownership and relationship structures for OBPO via a captive centre**

Type of OBPO captive model	Summary description
“Classic” captive (wholly-owned subsidiary).	Wholly-owned subsidiary in a specific offshore location performs OBPO services on behalf of parent company, hires staff and owns and controls assets used to deliver OBPO to parent.
Shared captive	Provides services for a group of companies in the same industry (e.g. airlines, BFSI). In some industries, common regulations impose similar compliance requirements on competitors which enable the establishment of offshore captives that perform compliance-mandated business processes for multiple client companies.
“Virtual captive”	Client company creates a wholly-owned subsidiary in an offshore location, owns the asset and appoints the staff, and hires an OBPO service provider to manage (see also build-own-transfer below).
Managed services captive	A variant of the “virtual captive” or build-own-transfer whereby a client company with an operating captive continues to utilise an OBPO service provider as the facilities manager or operator.
Build-Operate-Transfer or Build-Own-Operate – Transfer	The developer of an offshore facility finances and establishes the captive centre, and recovers its investment and operating and maintenance costs over an agreed period that enables a satisfactory internal rate of return for the developer.
Licensing	A variation on the Build-Operate-Transfer model whereby the parties agree to license Intellectual Property contributions.

While practitioner literature has identified a richer set of potential engagement models for captive centres, Hutzschenreuter, Lewin and Dresel (2011a), found that less than 5% of the cases that they identified through survey analysis pursued captive operations that could be classified as joint ventures. Accordingly, these authors viewed the model referred to by Oshri and van Uhm (2012) as a basic captive (and referred to in figure 2.6 as a “classic” captive) as by far the most common.

Although the term “captive” has been widely used in some of the literature, many organizations for which the term “captive” is applied do not use the term themselves, nor is it self-explanatory as to the nature of these organizations. In this document, the terms “captive centre” and “Global In-House Centre” are considered synonymous, and while GIC is the preferred term, many references to academic literature will need to retain use of “captive” in order to accurately reflect the source.

The Global In-house Centre model offers the potential advantage to client or sourcing companies of maximizing the creation and leverage of their knowledge and intellectual capital.

This is particularly the case where the captive model involves activities that could be classified as “Knowledge Services” (refer to section 2.4.3 above). The captive model, however, appears to be the least researched (Sharma, 2007; Oshri & van Uhm, 2012; Balaji et al., 2012).

A framework for companies making decisions about their engagement model for OBPO is proposed by Hutzschenreuter et al., (2011a) who utilise the terminology “governance mode” to analyse decisions about selection of engagement model. The authors refer to internal governance mode involving a wholly or partly owned subsidiary in the offshore location, or external governance which involves contract-based arrangements. Other authors also use the terminology “internal governance mode” to refer to captive centres (see for example Tate et al., 2009; Balaji et al., 2012; Gerbl et al., 2015). The importance of governance mode selection (i.e. choice of OBPO engagement model), particularly for activities classified as high value or knowledge-intensive services as been identified by a number of researchers including Mani, Barua and Whinston, (2006); Jensen, (2012); Jayaraman, Narayanan, Luo and Swaminathan, (2013); Narayanan and Narasimhan, (2014) and Pisani, Srikanth and Ricart, (2015).

Several academic papers (see for example Hutzschenreuter et al., 2011a; Tate et al., 2009 and Dibbern, Chin & Heinzl, 2012) argue that institutional factors will play a significant role in choice of governance mode (or engagement model), noting that US, UK and Dutch firms are much more likely to choose an external governance mode (i.e. contract-based arrangements) than their German counterparts. Based on case study research conducted primarily on German companies, Gerbl et al., (2015) concluded that choice of captive model in the cases studied resulted from a complex evaluation of factors that were interdependent, including nature of the business processes being outsourced, company context and location choice.

### **2.5.1 Persistence of the Captive Model for OBPO**

Establishment of OBPO captive centres is reported by Oshri and van Uhm (2012) to have commenced in 1985, and to have grown steadily over the next decade with a surge in investment establishing new captive centres in the latter part of the 1990’s. <sup>2</sup>By providing a detailed history of captive centre investments made by Fortune 250 global firms over a period of approximately twenty-five years, these authors demonstrate that offshore captive centres represent an economic phenomenon of considerable scale and scope, yet one where research is still in its infancy (Oshri & van Uhm, 2012).

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<sup>2</sup> Penter, K., Wreford, J., Pervan, G., & Davidson, F. (2013). Offshore BPO Decisions and Institutional Influence on Senior Managers, p.95.

Oshri and van Uhm (2012) also demonstrate that parent companies have changed the strategic intent of their offshore captive centres over time, that offshore captive centres change their business models (for example, from a basic to a shared and sometimes divested captive), that functions outsourced change, and that there has also been significant changes over time in the choice of offshore locations.

Adopting an economic efficiency perspective based on transaction cost theory, Oshri and van Uhm (2012) propose that trends in offshore captive centres can be explained by applying a modified form of country attractiveness framework (Joshi & Mudigonda, 2008; Oshri & van Uhm, 2012).

With the growing maturity of 3<sup>rd</sup> party BPO service providers, it is argued in this research that Oshri and van Uhm's (2012) extended country attractiveness framework is insufficient to explain fully trends in offshore captive centres, and in particular, the continuing persistence of the OBPO captive centres. The framework proposed by Hutzschenreuter et al., (2011a) appears to offer an alternative explanation based on institutional factors, a view which is also supported by Tate et al., (2009).

Very little research has focused on understanding the value proposition that captive centres can offer to their parent company (Balaji et al., 2012). The value proposition offered by captives is touched on in passing by Oshri and van Uhm (2012), and is the subject of case study research by Balaji et al. (2012) who looked at offshore ITO, not OBPO. While Gerbl et al., (2015) commenced the task of building a multi-level model of location choices for OBPO that considered the value proposition of captive centres, there appears to be a clear research gap on the factors that enable captive organisations to deliver value to the parent company, and whether captive models are more successful under certain sets of circumstances such as OBPO of knowledge-intensive processes (Tate et al., 2009; Contractor et al., 2010).

Therefore, it is proposed to address the research gap as to whether there are <sup>3</sup>factors other than country attractiveness which influence management decision-making in OBPO, and also to seek to understand the influences that support the persistence of the captive centre business model for OBPO, and also the factors that may cause management to make changes in the OBPO engagement model.

In summary, the scale and persistence of the offshore captive centre (or GIC) model appears to be a research gap that warrants further investigation.

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<sup>3</sup> Penter et al., (2013, p.95), op. cit.

## 2.6 LOCATION DECISIONS IN OBPO

The selection of offshore location, along with choice of engagement model, would appear to be two of the most important strategic factors (“critical success factors”) that contribute to success in OBPO, but as noted by Graf and Mudambi (2005) and Gerbl et al., (2016), there has been little academic research addressing the location decision for OBPO.

It is widely recognised in the literature (see for example Aubert et al., 2011; Carmel & Abbott, 2007; Dibbern et al., 2008) that the distance between the parties involved in OBPO does generate additional management costs. Noting that OBPO activities have become increasingly complex, Aubert et al. (2011) argue that “distance” defined in terms of cultural, geographic and institutional differences still matters a great deal in OBPO. The existence of numerous “clusters” of OBPO nearshoring centres in higher cost locations such as Canada for the USA, China for Japan and Poland for Germany, demonstrates the perceived attractiveness to many companies of nearshoring (Carmel & Abbott, 2007). The conclusion is that nearshoring to higher salary cost locations may deliver better outcomes because of the reduction in distance-induced management costs.

For example, Lacity et al., (2008) report that US client companies have obtained lower total costs with nearshoring to Canada than with offshoring to India. Dibbern et al., (2008) examined the extra costs incurred in software development projects outsourced to India by German companies and found that these extra costs arose from the additional requirements specification, knowledge transfer, control and coordination that were required to achieve success.

“Nearshoring is defined by Carmel and Abbott (2007) based on a combination of factors including time zone differences, physical geographic distance measured in terms of elapsed travelling time, cultural, shared language, political or economic alignment (including compatible legal systems) and historical links.

Drawing from previous research on international production and foreign direct investment, Graf and Mudambi (2005) have proposed a model for the OBPO location decision based on four specific factors:

- Human capital
- Country risk
- Government policy
- Infrastructure

In the Graf and Mudambi (2005) location model, the four specific location factors are mediated by four company-specific factors:

- Outsourcing objectives
- Company's previous experience in offshore outsourcing
- Nature of the business process to be outsourced (e.g. asset specificity)
- End customer expectations (e.g. degree of interaction with offshore service provider personnel)

Adapting Graf and Mudambi's model and other academic research on the location decision (Joshi & Mudigonda, 2008; Kotlarsky & Oshri, 2008; Gerbl et al., 2016), the following factors depicted in table 2.7 below are proposed as critical success factors in the location decision.

**Table 2.7 Proposed critical success factors in location decisions**

<b>Factors</b>	<b>Explanation</b>
Talent pool	Availability of both graduates and experienced staff with ITO/BPO and suitable language skills, including depth of talent pool to scale to meet demand without excessive attrition and salary inflation.
Cost of operating	Salary costs and inflation, combined with other components of operating costs including floor space rental, infrastructure, Government and regulatory support.
Risk	Will include political and economic stability including external threats, infrastructure and connectivity, legal and IP framework, safety and security (e.g. crime, terrorism).
Distance-induced effort to manage offshore activities	Combination of geographic and time zone distance, language skills, cultural differences, legal framework.
"Clusters" of key success factors	Tier 1 cities such as Bangalore demonstrate a combination of presence of major BPO service providers (Infosys, Wipro, TCS), global in-house centres, availability of skilled staff, world-class universities (e.g. IIMB) generating graduates
Length of business/country relationship	A stable business relationship and length of experience in working in an offshore jurisdiction will contribute to lower distance-induced costs.

Companies seeking locations for OBPO have an extremely wide scope as many national Governments seek to develop a supplier capability in OBPO as a means of creating skilled employment and stimulating economic activity. A study of global OBPO destinations (Willcocks et al., 2009) identified over 120 countries that were promoting themselves as suitable destinations for OBPO.

Applying the location critical success factors listed above usually results in specific cities being identified in the leading country/regions (e.g. Bangalore in India, Manila in the



Philippines). Hence, it is common to refer to these leading cities which feature extensive “clusters” of successful OBPO as Tier 1 cities.

Market share analysis suggests that success as an OBPO destination is heavily concentrated in the top six countries or regions listed in table 2.8 below together with the Tier 1 cities in each country region. India retains a dominant market share in OBPO, variously estimated at 50% - 55% of the overall global market for OBPO. The ranking below is based on a synthesis of data published by BPO industry research firms Tholons Advisory (2009) and Everest Research (2017). The methodology used by these firms to establish the rankings is based on a weighted assessment of factors including the estimated US dollar equivalent cost of offshore services delivered, estimates of staff directly employed and “cluster” factors such as presence of global in-house centres, major supplier firms, universities providing graduates and assessment of the supporting infrastructure including Government support for the BPO industry. India’s competitive advantage as a location for conducting OBPO is analysed in more detail in Appendix 8.

**Table 2.8 List of leading OBPO destination countries and Tier 1 cities**

<b>Rank</b>	<b>Country</b>	<b>Tier One cities</b>
1	India	Bangalore Gurgaon (Delhi/NCR) Mumbai Chennai Hyderabad Pune
2	The Philippines	Manila NCR
3	Central and Eastern Europe	Krakow Prague Budapest Warsaw
4	China	Shanghai Beijing Dalian
5	Brazil	Sao Paulo Rio de Janeiro
6	Canada	Toronto Halifax
7	Russia	Moscow
8	Mexico	Guadalajara Mexico City
9	Vietnam	Ho Chi Minh City
10	Ireland	Dublin

When OBPO involves knowledge-intensive services, Manning, Ricart, Rique and Lewin (2010) point to the emergence of geographic concentrations of interconnected companies, specialist service providers and associated institutions, including universities, trade associations and standards bodies, with Silicon Valley in the USA being an example of an IT development cluster. OBPO clusters provide the opportunity for client companies to tap into established and growing pools of qualified yet often cheaper personnel supported by specialised expertise, such as is found in Bangalore and Gurgaon in India, Sao Paulo, Rio de Janeiro and Recife in Brazil and Guadalajara in Mexico.

## **2.7 ROLE OF CULTURAL DIFFERENCES IN MANAGEMENT OF OBPO**

Noting that the companies and organisations actually performing OBPO are typically headquartered in USA, UK, Australia and western Europe gives rise to the observations that there will be cultural differences between customers and staff located in the locations from which business processes are being outsourced, and those countries and cities where the work is actually being performed. Offshoring of knowledge-intensive business processes will involve exchange of tacit knowledge, including culturally embedded work practices (Abbott, Zheng, Du & Willcocks, 2017).

Both Gregory (2010) and Gurung and Prater (2011) have surveyed the published literature on the role of cultural differences in offshore ITO. A number of research articles have found that distance and cultural differences pose unique risks and challenges to client companies that are engaged on offshore outsourcing, whether ITO or BPO (Gregory, 2010). While it is widely recognised in the literature that creating and sustaining an effective collaborative relationship between the client organisation and the supplier of BPO services is a critical success factor, Ang and Inkpen (2008) argue that multiple countries/locations involved in the delivery of OBPO magnifies the challenges associated with building an effective relationship.

One of the major drivers of distance-induced cost are cultural differences between client and supplier personnel, and in some cases, the presence of cultural misunderstandings can cause an OBPO initiative to fail (Aubert et al., 2011; Gregory, 2010). Cultural differences between client and service provider can impact on various aspects of the outsourcing relationship including trust, communication and knowledge transfer, each of which contributes to success (Gregory, 2010). Management of cultural differences has been identified by King and Torkzadeh, (2008) as a key research issue for ITO/BPO.

While various studies, such as those by Levina and Vaast (2008) and Dibbern et al., (2008), show that cultural differences have mostly a negative impact on offshore ITO effectiveness, a

key question that has so far rarely been addressed in the research literature is the extent to which management practices can ameliorate cultural differences.

Studies such as those by Oshri, Fenema and Kotlarsky (2008) and Levina and Vaast (2008) report that a key success factor in effective offshore ITO/BPO initiatives appears to have been managers variously described as “like-minded experts”, “boundary spanners” and “straddlers” who can “build bridges” between dispersed client and supplier project teams. Gregory (2010) argues that informal mechanisms for boundary spanning are of greater importance than formal and contractual mechanisms for coordinating effort in offshore ITO projects.

While the value created by such capable “boundary spanning” managers has been acknowledged in the literature, there is little or no published research dealing with the actions or capabilities of this cohort. Gregory (2010) notes that perception of cultural differences is both subjective and objective, while Aubert et al. (2011) introduces the concept of “perceived distance” which is a subjective assessment (made by individuals) of the “extent of space” between client and supplier personnel. As defined by Aubert et al., (2011) perceived distance is a mental representation and has both cognitive, relational and emotional components. Perceived distance appears to draw upon what is referred to by Gregory, Prifling and Beck (2008) as “cultural intelligence”, and is manifested at the level of **individual** managers.

The concept of **firm-level** cultural intelligence is developed by Ang and Inkpen (2008) and appears to have similar antecedents to the concepts of Gregory et al. (2008) and Aubert et al. (2011). The importance of the cultural intelligence of top management teams is emphasised by Ang and Inkpen (2008), as well as those project managers directly responsible for offshoring initiatives. Together, these managers can develop culturally intelligent structural norms, the presence of which is seen as a critical success factor for sustained offshoring success.

Based on case studies of German companies conducting OITO to Indian service providers, Winkler, Dibbern and Heinzl (2009) identify cultural differences in terms of power distance, IS designer values, and an active versus passive working attitude that can critically affect relationship quality. The authors utilise data gathered in the case studies to propose structures and best practices which can assist companies to manage cultural differences.

Much of the research on cultural differences has been conducted in the context of offshore ITO. In a survey of BPO literature, Lacity et al., (2011b) reported only 1 article dealing with management of cultural differences out of 87 articles that were analysed in detail. Thus, there appears to be a research gap in terms of effective practices for managing cultural differences (i.e. perceived distances) in OBPO projects, and in particular whether the concepts of effective

“boundary spanning” managers and firm-level cultural intelligence can be further developed in this context.

It has been suggested by Abbott et al., (2013) that published research on OBPO has not sufficiently taken into account the complexities of intercultural collaboration, and that the practice of organisational learning must also be applied in order to achieve OBPO success.

Choice of engagement model and selection of location appear to be critical success factors in OBPO, and there appears to be some research evidence that these two factors can significantly impact on the distance-induced management costs associated with OBPO, but these factors appear little explored in the published research. Therefore, it is proposed to address the research question as to how choice of engagement model and location influences distance-induced management costs associated with OBPO.

## **2.8 RELATIONSHIP QUALITY AND TRUST AS CONTRIBUTING FACTORS IN OBPO SUCCESS**

<sup>4</sup>Relationship quality has been identified as an important factor in offshore ITO/BPO success (Dibbern et al., 2004). Trust has been strongly linked with outsourcing success (Lee & Kim, 1999) and identified as an important integrating factor in outsourcing relationship quality (Lee, Huynh & Hirschheim, 2008). In a paper that is primarily focused on domestic ITO, Lee et al. (2008) present an integrative model of trust in the context of outsourcing relationships, and introduce new concepts relating to Initial Trust, Initial Distrust, Mutual Trust and Knowledge Sharing as critical success factors in outsourcing. The conceptual model for trust presented by Lee et al., (2008) appears to have explanatory power when applied to relationship quality as a success factor in OBPO.

One of the success factors for OBPO captive centres may be that they establish higher levels of Initial Trust, provide a better platform for building Mutual Trust and hence facilitate earlier and more effective knowledge sharing. Over time an arm’s length BPO relationship could replicate these success factors, although development of Mutual Trust could take several years to develop. This is consistent with outcomes reported by Aubert et al., (2011) that a stable business relationship with a long history of past communication reduces *perceived distance*.

Given the complexities and interdependence of factors such as selection of processes for OBPO, disparate commercial goals of client and supplier, perceived cultural and other distances (Gerbl et al., 2015), a certain amount of conflict is to be expected in OBPO

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<sup>4</sup> Wreford, J. Penter, K., Pervan, G., & Davidson, F. (2011). *Opaque indifference, trust and service provider success in offshore business process outsourcing*, p.3

relationships (Lacity & Willcocks, 2017). These authors provide data that between 30% and 50% of OBPO arms-length contractual relationships deliver poor outcomes, partly because partners cannot resolve conflicts. Lacity and Willcocks (2017) conducted case study research on significant conflicts that arose in “business services outsourcing” (BSO) relationships, and proposed a typology of commercial, service and relationship conflicts, and also identified effective conflict resolution behaviours. Based on this research, the author offers the following suggestions for practitioners faced with conflict in BSO relationships (Willcocks & Lacity, p. 96):

- i. “never assign blame, but instead co-own all problems;
- ii. be transparent about all relevant data;
- iii. seek solutions that work for both partners;
- iv. actively protect each other’s commercial interests;
- v. ensure that people (managers) behave appropriately or replace them”.

It has been observed<sup>5</sup> that offshore services outsourcing can be categorised as an *experience service*, where judgements about service quality can only be made after consumption. This is in contrast to outsourced manufacturing where a quality assurance and inspection regime can monitor quality of products before acceptance and payment has taken place. In the OBPO market where there is an absence of a prior quality assurance regime, the information asymmetry between client and service provider actors can be addressed by service providers issuing a quality signal in the OBPO market. OBPO suppliers can use third-party quality certification (such as Capability Maturity Model Integration Level 5) as a means of signalling adoption of rigorous practices that have been subject to independent audit. Indian BPO service providers have shown a strong propensity to seek CMMI certification”. It can be argued that the emergence of key OBPO “clusters” in India, such as Bangalore, Gurgaon, Hyderabad and Pune also reflects a form of quality signalling (Gao, Gopal & Agarwal, 2010”.

Building upon the work of Cullen et al. (2005) on how to configure client-vendor outsourcing relationships, Bekmamedova and Shanks (2012) argue that the relationship between trust and formal controls in ITO/BPO relationships is more complex than has been reported in prior literature. While proposing that both trust and formal controls are essential to achieve outsourcing success, Bekmamedova and Shanks (2012) report case study findings that the relationship between trust and formal controls will change over time and that a critical success factor is obtaining an appropriate balance.

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<sup>5</sup> Wreford, J. Penter, K., Pervan, G., & Davidson, F. (2012). *Seeking Opaque Indifference in Offshore BPO*, p.179

Hence, one of the research gaps that will be addressed will be to determine the extent to which the integrative model of trust proposed by Lee et al., (2008) has explanatory power for OBPO success, and whether the captive model for OBPO contributes to an optimum balance between trust and formal controls. It will also determine the extent to which various forms of quality signalling are valued by management in companies that are conducting OBPO.

## **2.9 DEFINITIONS OF SUCCESS IN OITO AND OBPO**

Since this research sets out to examine critical success factors in OBPO, it is important to establish and define a success construct. (i.e. what constitutes a definition of “success”). This is a surprisingly elusive concept in the published research. Despite more than two decades of ITO research, the definition of success remains under-theorised, a point made by Dibbern et al., (2004), Lee, Miranda and Kim (2004) and Cullen et al., (2008). Researchers have been unable to agree upon a common way of defining and measuring ITO/BPO success, and thus there remains considerable ambiguity around the definitions of ITO/BPO success that have been adopted in published research.

A number of authors have observed that the definition of success in Information Technology Outsourcing (ITO) research has been understood and measured in multiple ways (Westner & Strahringer, 2010). Perhaps more eloquently, Lee et al., (2008) note that the success of outsourcing can manifest in several different ways. Lee et al., (2008) make the case that the most reliable way to measure ITO success is by the degree to which *predefined objectives* are realised. These researchers further argue that the success of outsourcing should be assessed against predefined *strategic, economic* and *technological* objectives and business benefits. They point out that the approach of determining ITO success by measuring the extent to which predetermined benefits are obtained can be traced back to Loh and Venkatraman (1992) in ITO research literature.

In terms of research design, evaluating ITO or BPO success by measuring the degree of attainment of pre-defined objectives presents some challenges in terms of research design. It assumes that organisations included in any research sample did have unambiguous predefined objectives that can be accessed by the researcher(s). It also requires a longitudinal research approach spanning at least 2-3 years, and the capability to measure accurately and independently an organisation’s progress against the predefined objectives. Such a research approach may also have inbuilt confirmation bias, since firms that are not achieving their initial predefined objectives may become reluctant participants in any research sample.

### 2.9.1 Organisations' satisfaction with the results of IT Outsourcing (ITO)

Another common approach to measuring IT Outsourcing success is through the level of satisfaction with results. This approach ("expectations fulfilment") can be traced back through the research literature to Grover, Cheon and Teng (1996). Some researchers (e.g. Westner & Strahringer, 2010) have characterised this approach as "perceived satisfaction with IT outsourcing outcomes".

However, difficulties with this approach to measuring ITO/BPO success abound. For example, which stakeholders in an organisation are best placed to actually determine "satisfaction with IT outsourcing outcomes"? How to account for varying levels of satisfaction across individuals within the same firm? Can there be an accurate measure of "organisational satisfaction with outsourcing outcomes"? Is organisational satisfaction measuring anything different from the aggregate of individuals' perceived satisfaction (and dissatisfaction), noting that Fielt, Bandara, Miskon and Gable (2014) have emphasized the complexities of identifying the full range of stakeholders associated with outsourcing projects? Moreover, Koh, Ang and Straub (2004) make the point that service providers are also stakeholders in the success of any outsourcing relationship, so their perspective should be taken into account.

It also appears that many of the research instruments used to measure "satisfaction with outsourcing outcomes" in effect "lead the witness" or "put words in their mouths"; hence there will be room for doubt as to construct validity. It can be argued that a useful proxy for "organisational satisfaction with ITO outcomes" is contract renewal. This argument is advanced by Wreford, Penter, Pervan and Davidson (2012) and Goles and Chin (2005) who point out that the advantage of contract renewal as a proxy is that it is easily measured and goes beyond subjective perceptions. However, a shortcoming in using contract renewal as a proxy for organisational satisfaction with OITO/OBPO outcomes is that it is very difficult to apply to captive centres or internal governance modes.

### 2.9.2 Success measures for OITO/OBPO

In their paper from 2<sup>nd</sup> Global Sourcing Workshop in 2008, Cullen, Seddon and Willcocks (2008) set out to develop a new conceptualisation of ITO success. One of their contributions is to suggest that what each firm seeks from outsourcing is different; hence, ITO and BPO success measurements must recognise that these will be *idiosyncratic* to specific firms and will change over time. In their proposed ITO Success Framework, Cullen et al., (2008, p. 6), present a 25-point list of success measures that is organised around the following major headings:

- Value for Money
- Improved Financial Results
- Improved Operations
- Strategic Outcomes

Success measures specific for offshore ITO are also considered in Winkler, Dibbern and Heinzl (2009). This paper surveys prior outsourcing literature and concludes that common measures have included:

- Realisation of initial expectations
- Level of overall satisfaction

The authors, Winkler et al. (2009) have developed an offshore ITO success construct that combines the following 4 measures:

- Cost reduction
- Resource quality
- Increased flexibility
- Service quality

### **2.9.3 Differences between success measures for OITO and OBPO**

While Dibbern et al., (2004) make the reasonable suggestion that research into phenomena such as OBPO should build on what has been learnt from 15-20 years research into ITO, it is arguable that OBPO requires success constructs that reflect the unique nature of the BPO activities.

Both Wiener, Vogel and Amberg (2010) and Whitaker et al., (2011) make the case that there is a need for additional research to explicitly consider the potential benefits of OBPO. Applying the principles of Cullen et al. (2008) that ITO success is highly specific to business context and will vary over time suggests that success measures for OBPO should also take into account the precise nature of the OBPO activity under consideration.

Whitaker et al., (2011) suggest that OBPO success measures should include:

- Cost reduction
- Cycle time reduction
- Improvements in service quality

Wüellenweber et al., (2008) present a BPO success model comprising the following proposed success measures (note that comments below in italics have been added by the author of this research):



- Realised cost savings (*cost savings*)
- Realised cost transparency (*strategic – value for money*)
- Realised quality improvement (*technical service quality*)
- Realised access to external know how (*strategic*)
- Realised core competency focus (*strategic*)
- Realised access to superior IT (*strategic*)

#### 2.9.4 Normative comparisons of success measures for ITO and BPO

Reviewing a sample of 69 papers on BPO, Lacity et al., (2011b) have identified five success measures that are common to both ITO and BPO research and two measures that are unique to BPO, as indicated in the table below.

**Table 2.9 Comparison of success measures for ITO and BPO as reported in prior literature**

Success measures common to both ITO and BPO	Success measures unique to BPO
Cost reduction Access to skills & expertise Desire to focus on core capabilities Desire to improve business processes Protection of confidential information and intellectual property	Cycle time reduction Ability to scale up

#### 2.9.5 Research gap in success measures for OBPO

Identification of a success construct for OBPO continues to present difficulties for researchers. In published research on OBPO there are major sources of ambiguity around the success construct that has been adopted. The OBPO success construct adopted for this research includes three measures that appear to have a degree of independence; these being:

- Cost savings
- Technical service quality
- Strategic considerations

These should be measured on a firm-specific basis, against pre-defined objectives. Stakeholder satisfaction measured against expectations can also be applied in determining

OBPO success, noting it is essential that valid measures of stakeholder satisfaction be taken on a longitudinal basis (because expectations change with time) and also should reflect a sufficiently broad cross-section of stakeholders.

## **2.10 THEORETICAL “LENSES” FOR ANALYSING OBPO**

Potential theoretical lenses for analysing OBPO are considered<sup>6</sup> in Busi and McIvor (2008) and Lacity et al., (2011b) where both argue for the development of endogenous theories for outsourcing, prior literature reviews on ITO and BPO have identified that a wide range of foundation theories have been applied to explain and support outsourcing research. Dibbern et al. (2004) identified nine foundation theories that had been applied in ITO research, of which the most common was Transaction Cost Economics (or Theory) followed by Strategic Management theories and then Agency Theory. Institutional theory was not specifically identified in the Dibbern et al. (2004) survey of ITO literature, although their classification of individual papers suggests that institutional theory was incorporated in a more general category of Power and Politics Theory.

### **2.10.1 Application of Transaction Cost Theory in ITO/BPO research**

Transaction Cost Theory (TCT) has been applied extensively in discussing IT Outsourcing (ITO) and also in BPO research (Karimi-Alaghehband, Rivard, Wu & Goyette, 2011; Vitharana & Dharwadkar, 2007). This is consistent with the observations in section 2.8 above which notes that cost reduction is a factor that is common to all BPO success constructs.

TCT identifies two governance or management costs that arise as a result of the inherent nature of certain types of OBPO relationship structures; screening costs if the engagement model is arms-length contracting with a BPO supplier and monitoring costs due to risks associated with the *principal-agent* problem (e.g. opportunism). An engagement model based on a global in-house centre may reduce these management costs, which may be one explanation for the persistence of the GIC or captive model.

While the majority of researchers have adopted TCT as the primary theoretical “lens” through which to study ITO, it has also been noted that mixed results have been obtained from the application of TCT and that this theory alone is insufficient to explain results obtained from ITO/BPO (Karimi-Alaghehband et al., 2011; Lacity et al., 2011a; Vitharana & Dharwadkar, 2007). Karimi-Alaghehband et al., (2011) consider that a significant limitation has been the

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<sup>6</sup> Penter et al., (2013, p.96), op. cit.

failure to take adequate account of asset specificity, while Vitharana and Dharwadkar (2007) and Tate et al., (2009) take the view that a combination of theoretical lenses is required, with Institutional Theory considered to have explanatory power for both OITO and OBPO outcomes.

Taking a more strategic view, Lacity et al., (2011a), which is henceforth referred to as Lacity et al., (2011a), argue that ITO research has matured to the point that researchers should be building endogenous theory although retaining concepts from reference disciplines that have been found to be robust and offer explanatory power for the ITO phenomenon.

It has been argued (see for example Perrin, 2007) that ITO/BPO decisions involve a complex range of factors and will generally not be made solely on economic grounds. Hence, no single theory may offer adequate explanatory power for the full range of business contexts applicable to ITO/BPO. It has been suggested (Perrin, 2007; Lacity et al., 2011b) that TCT does not recognise the importance of factors such as relationships, trust, commitment and past outsourcing experience that influence outsourcing decisions. Hutzschenreuter et al., (2011a) present similar arguments and are supported by Lacity and Khan (2016, p. 50) who argue that *“ITO researchers were asking too much of TCE – the ITO phenomenon was more complex than can be accommodated by TCE alone”*.

### **2.10.2 Application of Relational Exchange Theory in ITO/BPO research**

Relational Exchange Theory (RET) is based on the concept that inter-organisational arrangements involve the continuous exchange of goods and services between the client and supplier over a specified period of time. According to Goles and Chin (2005) a fundamental concept in RET is that the parties have mutually agreed an outcome to their exchange which provides a greater benefit to both parties than if that exchange had taken place with another party and/or in a different form. The framework provided by RET combines “the spirit of the exchange and the implications of the contract” according to Goles and Chin (2005).

As numerous research studies (Alborz, Seddon & Scheepers, 2003; Goles & Chin, 2005; Lee et al., 2008) have emphasised the importance of the ongoing relationship between the client company and the service provider (which may be a captive centre), it would seem that RET will offer explanatory power for some aspects of the ITO/BPO phenomenon.

While RET provides tools for analysing the relationship, contractual and operational interactions between client and supplier, it has been argued that it is narrowly focused at a transaction level and fails to offer adequate explanatory power for broader trends that are observable in OITO/OBPO (Hutzschenreuter et al., 2011a).

### 2.10.3 Application of Institutional Theory to OITO/OBPO sourcing

The emergence of institutional theory and its explanatory power as applied to OITO/OBPO sourcing was analysed in Penter et al., (2013). Tracking the emergence of institutional theory<sup>7</sup>, Dibbern et al., (2004) reviewed ITO literature that had been published in the period up to the year 2000. In the last decade, Institutional Theory has emerged as a foundation theory that may have explanatory power for understanding changes that companies make in their sourcing arrangements associated with ITO and BPO.

Institutional theory explains certain types of organisational behaviour (including management decision-making) as a product of values, norms, beliefs and regulations originating in larger institutional contexts (DiMaggio & Powell, 1983; Suchman, 1995; Hargrave & Van de Ven, 2006). According to institutional theory, managers in organisations are subject to pressures from the institutional environment that lead them to conform to taken-for-granted norms, beliefs and practices (Vitharana & Dharwadkar, 2007; Tate et al., 2009).

<sup>8</sup>Early ITO research articles such as Lacity and Hirschheim (1993) describe a *bandwagon* effect without referring specifically to institutional theory. Lacity and Hirschheim (1993) described in detail *imitative* and *normative* behaviour by managers in companies that were making IT sourcing decisions and also identified a *coercive* influence from the expectations of industry analysts who were widely quoted in the business media. As described by Lacity and Hirschheim (1993), IT outsourcing by Eastman Kodak in the late 1980's had very similar parallels with the *General Electric Effect* referred to by Oshri and van Uhm (2012) when describing GE's decision to establish large scale captive centres in India in the 1990's.

Probably the first formal application of institutions theory to IT outsourcing was by Ang and Cummings (1997) in a paper that analysed individual company decisions regarding ITO in the US banking industry. Ang and Cummings (1997) noted that imitative and normative influences led to management passivity in the face of significant competition and changes in industry dynamics, and that strong regulation also exerted a coercive influence on management decision-making in the US banking industry sector. Institutional influences were found to be sufficiently strong to override economic efficiency considerations, although this varied across individual companies.

A more comprehensive application of institutional theory to changes in IT sourcing arrangements is found in Jayatilaka and Hirschheim (2009). These authors adopt a qualitative,

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<sup>7</sup> Penter et al. (2013, p.96) op. cit.

<sup>8</sup> Penter et al. (2013, p.97) ibid

longitudinal case study approach to understand the drivers and outcomes of IT sourcing changes in four companies across three industry sectors. Where Ang and Cummings (1997) found that institutional influences in US banking industry often resulted in management passivity and a conservative approach to ITO, an important contribution of Jayatilaka and Hirschheim (2009) is their analysis of how and why organisations *change* their sourcing arrangements.

Vitharana and Dharwadkar (2007) apply both transaction cost theory and institutional theory to IS outsourcing and conclude (in similar manner to Ang & Cummings, 1997) that mimetic, normative and coercive forces often override transaction cost theory in influencing outsourcing decisions. The authors argue that institutional theory may explain persistence with outsourcing even when economic results are disappointing. In the context of trends in OBPO and particularly the persistence of offshore captive centres as a business model, Vitharana and Dharwadkar (2007) propose a three-stage model for the process of institutionalisation:

- i. An early phase of acceptance of the concept followed by diffusion
- ii. Middle phase of complete acceptance and stability
- iii. Final stage of de-legitimisation

These authors propose that the transition between stages one and two is the point at which institutional influence replaces economic efficiency considerations in management decision-making, and the greater the density and rate of adoption of outsourcing then the stronger the influence of institutional theory.

#### **2.10.4 Application of Institutional Theory to OBPO decision-making**

While there have been an increasing number of researchers reporting that institutional theory has explanatory power for company-level decision-making in IT Outsourcing (Kshetri, 2007; Jayatilaka & Hirschheim, 2009; Tate et al., 2009), research applying institutional theory to OBPO has been scarce (Lahiri & Kedia, 2011; Lacity et al., 2011a; Su, 2011).

<sup>9</sup>Kshetri (2007) aimed to develop a framework based on regulatory norms, social rules, culturally supported habits and subconsciously accepted rules and customs to analyse the drivers of OBPO and ITO. This paper applied institutional theory mainly at macro levels (i.e. organisational field appeared to be national economies) in a paper that was conceptual rather than empirical, and called for more OBPO research applying institutional theory at the level

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<sup>9</sup> Penter et al. (2013, p.98) op. cit.

of individual company decision-making. Tate et al. (2009) conducted case study research to analyse the evolution of OBPO with regard to how expectations and governance structures changed over time, and found that a combination of institutional and transaction cost theory combined with resource-based perspectives were necessary to understand the dynamic, continuously evolving practice of OBPO”.

Hence, the application of institutional theory to management decisions made by individual client companies has been identified as a gap to be addressed in this research. Such an approach is consistent with the direction proposed by Kshetri (2007). In this research, the case study methodology is similar to that reported by Jayatilaka and Hirschheim (2009) but in this research the focus is OBPO rather than ITO.

## **2.11 STRATEGY OPTIONS FOR OBPO**

A number of researchers have noted that it is surprising, given the magnitude of the OBPO phenomenon, that overarching strategic options or frameworks for management success have as yet been little discussed in the literature (Youngdahl & Ramaswamy, 2008; Oshri & van Uhm, 2012). The former argue for the development of a strategic framework for OBPO within which managers can clarify strategic options for offshoring of service and knowledge work, while the latter recommends that senior management should evaluate their strategic options every 3-5 years. Focusing specifically on global sourcing of high-value business services, Lewin and Volberda (2011) made a plea for more research encompassing the interactions between management intentionality, path-dependent experience, knowledge accumulation by client companies, as well as the influence of broader institutional and competitive factors.

Noting the trend for OBPO to involve more knowledge-intensive services (also referred to as “relocation of high-value company functions”), Contractor et al., (2010) argues that OBPO activities have shifted from being an operational tool with a focus on cost savings, to encompass activities with strategic importance, and hence require senior management attention, a point also made by Massini, Perm-Ajchariyawong and Lewin (2010). When OBPO involves relocation of high-value company functions, senior management should craft OBPO strategy on the basis that the company is simultaneously seeking cost reductions, new sources of knowledge and expertise and to better understand and develop offshore markets in the locations from which OBPO is delivered (Contractor et al., 2010).

In the ITO domain, Cullen et al., (2005) have developed a “configuration framework” which provides a high-level description of the set of choices available to senior management in crafting an IT sourcing strategy. These authors present a 7-attribute model of ITO strategic choices available to management. At least four dimensions that are relevant to OBPO are not

reflected in the 7 attributes; for OBPO missing elements include choice of engagement model, location decisions, management of cultural differences and the response of end customers in the client company's core or home markets ("interaction intensity"). Both Youngdahl and Ramaswamy, (2008) and Su and Levina, (2011) call for the development of a strategic options framework for offshore ITO/BPO that draws upon work done in the area of manufacturing strategy such as Ferdows (1997).

One of the first research articles to begin addressing company strategy for **offshore** IT outsourcing was Carmel and Agarwal (2002) who develop a 4-stage maturation model for US companies sourcing IT work offshore (SITO). The four stages in the SITO model were as indicated in the table 2.10 below:

**Table 2.10 4-stage Maturation Model for sourcing IT work offshore (Source: Carmel & Agarwal, 2002)**

Stage	Description	Characteristics
1	Offshore bystander	Domestic sourcing only
2	Offshore experimenters	Pilot testing with non-core IT applications and processes
3	Proactive cost focus	Broad corporate-wide efforts to achieve cost efficiencies through offshore work
4	Proactive strategic focus	Offshore sourcing is a strategic imperative to achieve competitive advantage and accelerate time to market

Carmel and Agarwal (2002) also note the importance of captive centres (which they refer to as "Tech Insourcing") in their survey of offshore practices of US firms, noting that captive centres (i.e. Tech Insourcing) are more prevalent in companies that are operating at stage 4 in the maturation model.

The 4-stage maturation model presented by Carmel and Agarwal (2002) can be used by senior management to benchmark their own offshore ITO sourcing activities. In OBPO there appears to be both a research gap and a research opportunity to develop a framework of strategic options or critical success factors which could be applied in a similar manner to benchmark OBPO activities.

<sup>10</sup>A number of authors (Carmel & Agarwal, 2002; Rottman & Lacity, 2006) have noted that offshore ITO/BPO performed through arms-length contracts involves inherent tensions and requires a difficult balancing act. Rottman and Lacity (2006) analysed 21 large US companies and identified 15 management practices necessary for effectively offshoring IT work. While business benefits were obtained from these arrangements, success requires immense amounts of hands-on management time and attention which increases transaction costs and can erode overall savings. Dibbern et al., (2008) identified extra client costs associated with software projects outsourced to India and noted that these were directly related to the amount of client-specific knowledge that is required to be transferred.

Utilising a captive model may eliminate some of the inherent tensions and management overheads associated with arms-length contracting. In a captive model, internal contracting is simpler and less risky, capturing and leveraging knowledge gained in the offshore operation is easier and security and confidentiality concerns can also be mitigated (Carmel & Agarwal, 2002), thus supporting a more successful OBPO outcome.

Both Carmel and Agarwal (2002) and Rottman and Lacity (2006) conducted research on US companies. Dibbern et al., (2008) extends that focus to German case studies. Most case study research into OBPO has focused on US companies and has been done primarily from the client company perspective.

It has been argued that the values, socio-cultural norms and belief systems in the client company's home country will shape the design and implementation of offshoring activities, and that US, British and Dutch companies have a much higher likelihood of using arms-length contracting than German and Spanish companies (Hutzschenreuter et al., 2011a). Having examined a sample of 525 US and German firms, Hutzschenreuter et al., (2011a) found that German firms were 4 times more likely than US firms to choose a global in-house centre as the engagement model (which they refer to as "governance mode" being either "internal" (i.e. GIC) or "external" (arms-length contracting)). These authors are of the view that Institutional Theory provides an explanation for the observed differences between US and German companies. Support for this view is found in Gewalt and Dibbern (2009) who conducted case study research into OBPO in the German banking industry.

Thus, there would seem to be a research opportunity to focus on broadening the range of case studies reported in the literature and also to examine the perspectives of both the client and supplier (which may be a captive or global in-house centre).

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<sup>10</sup> Wreford, J. et al., (2011, p2), op. cit.



### 2.11.1 Identifying and managing risk in implementing offshore ITO/BPO

Researchers have found that offshore outsourcing poses additional challenges when compared to domestic outsourcing (Rottman & Lacity, 2008). There is ample evidence in published research of companies struggling to realise potential benefits of offshore ITO, and a significant number of articles highlighting inherent risks (Lacity & Willcocks, 2017). Hence, identification and management of risks needs to be part of OBPO strategy.

A number of the early practitioner articles that were published on the emerging OITO phenomenon (Aubert, Rivard & Patry, 2002; Carmel & Agarwal, 2002; Kaiser & Hawk, 2004; Rottman & Lacity, 2004, 2006, 2008) placed a strong emphasis on the need to identify and manage risk when developing a company's offshore outsourcing strategy. A number of papers have also reported offshore projects that were not successful in achieving cost, quality and productivity objectives (Rottman & Lacity, 2008; Dibbern et al., 2008; Schoeman et al., 2008). Rottman and Lacity (2004, 2006 and 2008) present case study results that demonstrate that risks and transaction costs are greater in offshore outsourcing, and have identified 11 risks that are unique to offshore sourcing. Drawing upon the articles referenced in these two paragraphs in Section 2.11.1, the risks that have been identified by the author as unique to OITO/OBPO can be summarised as indicated in the table below.

**Table 2.11 Risks unique to offshore ITO/BPO**

Risk Category	Examples of risks
Business	<ul style="list-style-type: none"> <li>• Backlash against from end customer</li> <li>• Cost savings/benefits not realised</li> <li>• Poor supplier performance (e.g. cultural fit)</li> <li>• Wrong types of activities outsourced</li> <li>• Inability to develop effective relationship between client and supplier</li> </ul>
Legal	<ul style="list-style-type: none"> <li>• Ineffective judicial system at offshore location</li> <li>• Loss/infringement of intellectual property rights</li> <li>• Inflexible labour laws</li> <li>• Difficulties obtaining visas</li> <li>• Breach in security of data and end customer privacy</li> </ul>
Geopolitical	<ul style="list-style-type: none"> <li>• Political instability, terrorism or war in offshore location</li> <li>• Political tension/instability between client and supplier countries</li> <li>• Backlash from end customers and internal IT staff</li> <li>• Brand and reputation damage due to political/government pressure on companies that source offshore</li> </ul>
Workforce	<ul style="list-style-type: none"> <li>• Staff turnover (attrition) rates in offshore suppliers</li> <li>• Poor communications skills in offshore supplier workforce</li> <li>• Difficulties in transferring knowledge to offshore workforce</li> </ul>

Infrastructure	<ul style="list-style-type: none"> <li>• Unreliable utilities (electricity, telecommunications, etc.)</li> <li>• Difficulty of physical access to supplier (traffic delays, poor airport access)</li> </ul>
Cultural	<ul style="list-style-type: none"> <li>• Differing cultural norms, values and attitudes</li> <li>• Holidays and religious festivals fall on different dates</li> </ul>
Logistics	<ul style="list-style-type: none"> <li>• Time zone differences</li> <li>• Managing remote teams &amp; coordinating transfer of knowledge</li> </ul>

While there have been a number of papers on risks associated with ITO (Gonzalez, Gasco and Llopis, 2016), papers dealing with risks associated with OBPO are less common. While Gewalt and Dibbern (2009) considered BPO risks in the German banking industry, a more general risk identification and management framework for OBPO is presented by Aron et al., (2005) who classify four categories of risk:

- i. Strategic
- ii. Operational
- iii. Loss of capability in client company\*
- iv. Geopolitical and location risks

\*This risk is also identified and analysed in some detail in Rouse and Corbitt (2007) and Augustin et al., (2010).

Aron et al., (2005) argue that it is the responsibility of executives of the client company to manage offshore outsourcing in a manner that achieves the best long-term risk adjusted rate of return. They also point out that, for many client companies, OBPO is still a relatively new activity so that risks are seldom understood by client or supplier management.

Consistent with the views of Aron et al., (2005), one area of risk that is mentioned only in passing in published literature is the risk of a backlash from end customers and stakeholders of the client company. This specific risk is dealt with in section 2.10.2 below.

In summary, the identification and proactive management of unique risks associated with OBPO appears to be an important component of OBPO strategy, and appears to be a research gap that warrants further investigation.

### 2.11.2 Integration of end customer and stakeholder perspectives into OBPO strategy

<sup>11</sup>Because competition on the basis of superior customer service is increasing in industries that are at the forefront of offshore services outsourcing, such as banking and financial services, telecommunications, airlines, healthcare and logistics (Maddern, Maull, Smart & Baker, 2007), it is therefore surprising that there has been little published research on the impact of OBPO on end customers' perceptions and levels of satisfaction.

The author has located only a small number of articles (see for example Thelen, Yoo & Magnini, 2011; Honeycutt, Magnini & Thelen, 2012) that have examined the experience, perceptions and preferences of end customers of client companies that are engaged in OBPO in a manner that impacts upon and/or is noticeable to end customers. <sup>12</sup>This lack of focus on the satisfaction of the end customer exists despite anecdotal evidence of increasing complaints by end customers about difficult accents and poor service.

Honeycutt et al., (2012, p. 40) report that "two-thirds of American consumers indicate that they would change the way they do business with a company, by reducing purchases or defecting, if that company used customer service representatives located overseas. Not surprisingly in view of these reported findings, some companies are bringing offshored services back onshore and explicitly advertising the fact that these services are now being dealt with onshore" (Thelen et al., 2011).

<sup>13</sup>Major banking group Santander UK outsourced its call centre operations to Indian-headquartered service provider MphasiS in 2003. In July 2011, Santander announced that it was closing all of its Indian call centres as part of a drive to improve customer service. Santander UK CEO Ana Botin noted that<sup>14</sup>:

*Improving the service we offer is my top priority. Our customers tell us they prefer our call centres to be in the UK and not offshore. We have listened to the feedback and have acted by re-establishing our call centres back here.*  
(Treanor, 2011)

<sup>14</sup>A spokesperson said that feedback from customers was that they would prefer to deal with call centres in the UK where staff could understand them better as individuals and know more about their service expectations. Clearly, many of Santander's UK customers had negative

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<sup>11</sup> Wreford, J. et al., (2011, p5), op. cit.

<sup>12</sup> Wreford, J. et al., (2012, p184), op. cit.

<sup>13</sup> Wreford, J. et al., (2012, p186), op. cit.

<sup>14</sup> Wreford, J. et al., (2012, p186), ibid

perceptions of OBPO with the result that customer satisfaction was lower. Dealing with an offshore call centre was a frustration that could lead to customer dissatisfaction.

As noted in section 2.4 above, a differentiating characteristic of BPO (and OBPO) is the extent to which BPO service providers interact directly with the BPO clients' customers and suppliers (Whitaker et al., 2011). BPO service provider personnel must interpret the needs of their clients' customers and deliver effective customer service. In OBPO, the challenge of delivering effective customer service may increase due to geographical and time zone distance, and differences in culture, language or accent, and legal systems (Aubert et al., 2011; Whitaker et al., 2011).

Since most research in OBPO has been conducted from the perspective of the client company, there appears to be both an opportunity and a need for more research that also considers the perspective of the OBPO service provider. There is also a for OPBPO research to focus on the impact on the end customers of the client company, and their level of satisfaction in dealing with an OBPO service provider.

<sup>15</sup>There has been some research which focuses on the role of call centre workers and western customers (Taylor & Bain, 2005) which emphasises the cultural divides and tensions in the service provider–end customer relationship and the pressures these conflicts place on staff and efficiency. Organisations seek to minimise these hostile perceptions by employing strategies such as modifying staff accents, scripting conversations, and providing staff with westernised names and cultural training.

There is evidence that US/western end customers and the public at large view offshore outsourcing negatively, as causing lost jobs for workers and poorer customer service for workers. As reported by Lacity and Rudramuniyaiah (2009) who use political cartoons to track public opinion of offshore outsourcing, the two most common themes in a sample of 139 US/Western political cartoons drawn by 63 unique artists were:

- Workers lose jobs because of outsourcing/offshoring
- Consumers bear the negative consequences of outsourcing/offshoring

With the exception of Khan and Lacity (2012; 2014), there appears to have been no academic investigation of the importance or effect of consumer satisfaction, domestic political responses, or labour relations on organisational decisions to embark on OBPO, and management of these stakeholders would seem to involve risks that cannot be ignored, and hence should form part of any strategic management framework for OBPO.

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<sup>15</sup> Wreford, J. et al., (2012, p186), op. cit

Moreover, Honeycutt et al., (2012, p. 42) raise ethical questions that go to the corporate social responsibility of companies that are engaged in OBPO:

- i. “Should the recipients of a service care about the location of the service provider, as long as they are receiving the best possible service?”
- ii. Should recipients of offshore services be informed?
- iii. What is the appropriate manner for informing customers that their service provider is located overseas”?

In summary, the development of a framework for considering the strategic options available to senior management for OBPO appears to be a research gap that warrants further investigation.

It is proposed to address this research gap by integrating factors specific to OBPO, including the intensity of interaction with end customers and stakeholder and end customer perspectives, into an overarching management strategy or framework for achieving success in OBPO.

### **2.11.3 Can OBPO drive innovation for the client company?**

It is common to find references in commercial and marketing publications to the potential of OBPO to drive innovation for client companies. However, published research on innovation is rare, and appears to have emerged only recently. OBPO can be viewed as a form of organisational innovation, and innovation can also be viewed as one of the objectives of OBPO (Hirschheim & Dibbern, 2009; Jayatilaka, 2009; Lacity & Willcocks, 2013; Aubert, Kishore & Iriyama, 2015).

The strategic profile of a company or organisation is likely to influence OBPO strategy (Aubert, Beaurivage, Croteau & Rivard, 2009), with firms that are classified as “defenders” in terms of their strategic profile (Miles & Snow, 1978) likely to be attracted to OBPO as a means of reducing costs. On the other hand, firms classified as “prospectors” in the Miles and Snow (1978) typology focuses on innovation (e.g. new products and services) to meet new and changing customer needs and generate revenue growth. Hence, a firm classified as a “prospector” is likely to place a greater emphasis on achieving innovation from OBPO activities.

Collaborative innovation in ITO/BPO is a strategic motivation that has been infrequently researched, and according to Whitley and Willcocks (2011) represents a significant gap in our understanding of outsourcing practice. In a review of ITO literature, Lacity et al., (2010) identified only one study that considered innovation as a driver for IT outsourcing while a

review of BPO literature (Lacity et al., 2011a) identified three studies from a collection of 87 articles that identified innovation as a motivation for BPO.

Aubert, Iriyama, Ondelanssek & Kishore, (2015) suggests that it is not surprising that innovation has been rare in the ITO field where research findings have argued in favour of tight contracts in an environment of low uncertainty. Lacity and Willcocks (2014b, p. 40) observe that historically, “innovation and ITO/BPO have been rare bedfellows”. The view that offshore ITO/BPO does not present an easy path to innovation was also supported by Levina and Vaast (2008) who reported case study findings that innovation came mostly from the client. These authors noted that boundaries of various forms (power distance, organisational boundaries, geographic and cultural distance) could have the effect of reducing collaboration between parties which would lower innovation. This view was corroborated by Straub, Weill and Schwaig (2008) who noted that IT-enabled competitive advantage required continuous innovation, and an executive mindset that understood the strategic use of IT. Such an approach and mindset was difficult to achieve when control over an organisation’s strategic IT assets was handed over to an external service provider.

While noting that relatively few BPO relationships achieve successful innovation, Lacity and Willcocks (2014b) conducted case study research that found that in high performing BPO relationships, multiple innovation projects delivered substantial improvement to the client’s performance.

These authors (Lacity & Willcocks, 2014b) conducted case study research on a sample of 24 client and provider pairs (48 organisations in total) that had been identified as working together to deliver to foster dynamic innovation. The importance of senior management leadership was emphasised, with effective leadership “pairs” identified as the most important factor in successful BPO innovation. The importance of a high quality relationship and a collaborative culture in delivering innovation from BPO have been identified as key success factors by Oshri, Kotlarsky and Gerbasi, (2015).

In arm’s length contractual relationships, another critical success factor was that client firms provide incentives to BPO service providers to deliver innovation (Lacity & Willcocks, 2014b). Not discussed in this research study was the performance of captive centres in delivering BPO innovation.

In summary, there appears to be a significant research gap in evaluating the extent to which OBPO can deliver innovation to client companies, and in particular, the performance of captive centres in delivering innovation appears to be a significant research gap.

## **2.12 IDENTIFYING RESEARCH GAPS FOR OBPO**

The purpose of this section is to summarise and classify research gaps that have already been identified in prior academic literature on OBPO, or globally distributed work (GDW) which is sometimes used as an alternative term for “OBPO.” Terminology is not yet standardised in published research in the field of offshore business process outsourcing; another relatively common and synonymous term is “international outsourcing of services” (see for example Kedia & Lahiri, 2007).

### **2.12.1 Methodology for reviewing prior literature to identify research gaps**

Potential research gaps in OBPO have been identified by reviewing articles from academic journals that have either been presented in various “Special Editions” dealing with offshore outsourcing research, or have been identified as offshore outsourcing literature reviews (for example, Dibbern et al., 2004; Lacity et al., 2010; Lacity et al., 2011a; Schmeisser, 2013; Liang et al., 2016; Mihalache & Mihalache, 2016; Pisani & Ricart, 2016; Lacity et al., 2016; Lacity, Yan & Khan, 2017).

The articles that have been utilised to identify research gaps have been selected on the basis that they provide a comprehensive survey of research into OBPO, or they offer particular insights into the status of research issues in this field. The articles that have been utilised have publication dates ranging from 2004 to 2017; thus, it is proposed that the articles collectively provide a broad and up to date summary of the status of research in the field of OBPO. The articles listed in table 2.12 below have been selected on the basis of the insights they provide into research gaps; they are by no means a completely exhaustive survey of all relevant academic literature that may have identified OBPO research gaps and/or opportunities for future research.

In the BPO domain, the literature is clearly less mature than in the ITO domain, a point made by Lacity et al., (2011a) who conducted one of the first comprehensive reviews of published BPO studies. These authors note that academic research on BPO started around 2000, with more comprehensive volumes of papers on BPO being published from 2007 onwards, with about 15 papers per year appearing (Lacity et al., 2011a).

In the broader domain of “offshoring of services”, Mihalache and Mihalache (2016) identified 173 offshoring articles from scholarly journals and reported that research on offshoring of business processes began to grow steadily off a very low base from approximately 2003, with a peak in 2008 where 33 articles meeting their criteria were published (Mihalache & Mihalache, 2016, pp1109). The peak in 2008 coincided with two special issues on offshoring published respectively in MIS Quarterly (Information Systems offshoring) and Journal of

Operations Management (Offshore knowledge and service processes). Thus, 2008 saw special issues on offshoring published in both the IS and IB disciplines.

**Table 2.12 Summary of prior literature surveys of offshore ITO/BPO**

Ref. Number	Authors	Title & Summary	Year of Publ.	Journal
1	Dibbern, Goles, Hirschheim & Jayatilaka	Information Systems Outsourcing: A survey & analysis of the literature	2004	Database for Advances in Information Systems 35 (4): 6-102
2	Gonzalez, Gasco & Llopis	Information systems outsourcing: A literature analysis	2006a	Information & Management 43 (7) 821-834
3	Gonzalez, Gasco & Llopis	Information systems offshore outsourcing – a descriptive analysis	2006b	Industrial Management & Data Systems, 106 (9) 1233 – 1248
4	Parkhe	International outsourcing of services: Introduction to the special issue	2007	Journal of Information Management 13 (207) 3-6
5	Youngdahl, Ramaswamy & Verma	Exploring new research frontiers in offshoring knowledge and service processes	2008	Journal of Operations Management 26 (2) 135-140
6	Youngdahl & Ramaswamy	Offshoring knowledge and service work: A conceptual model and research agenda	2008	Journal of Operations Management 26 (2) 212-221
7	Busi & McIvor	Setting the outsourcing research agenda: the top-10 most urgent outsourcing areas	2008	Strategic Outsourcing: An International Journal, 1 (3) 185-197
8	King & Torkzadeh	Information Systems Offshoring: Research Status and Issues. Foreword to MISQ Special Edition on Information Systems Offshoring	2008	MIS Quarterly 32 (2), 205-225
9	Hirschheim, Dibbern & Heinzl	Foreword to the special issue on IS sourcing	2008	Information Systems Frontiers (2008) 10: 125-127
10	Oshri, Kotlarsky, Rottman & Willcocks	Global sourcing: recent trends and issues	2009	Information Technology & People, 22 (3), 192-200
11	Hatonen & Eriksson	30 + years of research and practice of outsourcing – exploring the past and anticipating the future	2009	Journal of International Management, 15 (2), 142 -155



12	Alsudairi & Dwivedi	A multi-disciplinary profile of IS/IT outsourcing research	2010	Journal of Enterprise Information Management, 23 (2), 215-258
13	Lacity, Khan, Yan, & Willcocks	A review of the IT outsourcing empirical literature and future research directions	2010	Journal of Information Technology 25 (4), 395-433
14	Wiener, Vogel & Amberg	Information Systems Offshoring – A Literature Review and Analysis	2010	Communications of the Association for Information Systems, Vol 27, Article 25.
15	Lacity, Solomon, Yan, & Willcocks	Business process outsourcing studies: a critical review and research directions	2011	Journal of Information Technology 26 (4), 221-258
16	Gonzalez, Llopis & Gasco	Information systems offshore outsourcing: managerial conclusions from academic research	2013	International Entrepreneurship Management Journal, 9 (2), 229 – 259
17	Schmeisser	A Systematic Review of Literature on Offshoring of Value Chain Activities	2013	Journal of International Management, 19 390 – 406
18	Liang, Wang, Xue & Cui	IT outsourcing research from 1992 to 2013: A literature review based on main path analysis	2016	Information & Management, 53 227 – 251
19	Mihalache & Mihalache	A Decisional Framework of Offshoring: Integrating Insights from 25 Years of Research to Provide Direction for Future	2016	Decision Sciences, 47 (6) 1103 – 1149
20	Pisani & Ricart	Offshoring of Services: A Review of the Literature and Organizing Framework	2016	Management International Review 56: 385 – 424
21	Lacity, Khan & Yan	Review of the empirical business services sourcing literature: an update and future directions	2016	Journal of Information Technology 31 269-328
22	Lacity, Yan & Khan	Review of 23 Years of Empirical Research on Information Technology Outsourcing Decisions and Outcomes	2017	Proc. Of 50 <sup>th</sup> HICSS, pp 5214 - 5224

While the above articles each identify gaps in the published research literature, it is more difficult to determine an order of priority or to rank the suggested research gaps by importance. An exception is provided by the Foreword to the MISQ Special Edition on Information Systems Offshoring (King & Torkzadeh, 2008). The authors conducted a Delphi study in which 101 authors, reviewers and associate editors were surveyed concerning their opinions of the most important current issues in offshoring. The approach identified by King and Torkzadeh (2008) appears to be the most thorough and systematic for identifying offshoring information systems research issues. The ranked list of offshoring research issues from King and Torkzadeh (2008) is listed in table 2.13 below, with an indication of the extent to which it has been addressed by this research.

**Table 2.13 Offshoring research issues from King & Torkzadeh (2008)**

<b>Rank</b>	<b>Issue</b>	<b>Addressed by this PhD thesis</b>
1	What are the strategic organisational implications (e.g. organisational learning, firm knowledge) of offshoring?	<b>Yes, major focus</b>
2	How do cultural differences between the client and vendor affect management, communication and coordination?	<b>Yes, major focus</b>
3	What practices can be developed to better manage the relationship with offshore vendors?	<b>Yes, major focus</b>
4	What theoretical framework can help the field better understand various types of offshoring and how offshoring differs from onshoring, back-sourcing, or multi-sourcing?	Yes, minor focus
5	How viable is offshoring as a competitive long-term strategy?	<b>Yes, major focus</b>
6	How can firms determine if offshoring a particular project is an appropriate strategy?	Yes, in passing
7	How does geographical distance impact coordination and communication between the client and vendor?	Yes
8	What impact, if any, does offshoring have on retention of critical core competencies within the firm?	Yes
9	How can the costs and risks of offshoring strategies be assessed/mitigated	Yes
10	What communication methods can the client and vendor adopt in order to create or transfer expertise?	Yes, in passing
11	What are the critical success factors for offshoring?	<b>Yes, major focus</b>
12	What are the most important factors in offshore vendor selection?	No

With a view to proposing an outsourcing research agenda, Busi and McIvor (2008) also make an important contribution by identifying a limited number of what they considered the key and most important research areas (see table 2.14 below). This research addresses 7 of the top 10 most urgent outsourcing topics as identified by Busi and McIvor (2008). Those **not** addressed are Busi and McIvor priorities 4, 5 and 8 which are primarily on corporate social responsibility and macro employment trends related to offshore outsourcing.

**Table 2.14 Summary of Busi and McIvor Top-10 list of outsourcing research area**

No.	Topic summary	Addressed in research
1	Outsourcing (OS) of services (onshore and offshore) including implications for theory formulation and codification of knowledge.	Yes
2	Operational management	Yes
3	Application of operations management disciplines to services outsourcing, including business information, change, knowledge and performance management.	Yes
4	Impact of OS and offshoring on jobs mobility.	No
5	Impact of environmental policies and CSR on outsourcing and offshoring decisions.	No
6	Impact of functional and transformative OS on firms' performance and profitability.	Yes
7	Addressing performance measurement and management challenges in OITO/OBPO	Yes
8	Role of legal contracts in outsourcing relationships and implications for job migration	No
9	Role played by trust in the scope and depth of OS relationships (from transactional to transformative)	Yes
10	Risks, benefits, challenges and opportunities at a national, industry/sector and firm individual level.	Yes Firm only

Having taken into account the OBPO research gaps identified from the surveys of literature in table 2.12 together with the priorities identified by King and Torkzadeh (2008) and Busi and McIvor (2008), table 2.15 outlines the gaps that this research has sought to address.

**Table 2.15 Identified research gaps selected for investigation in this research**

(Reference numbers below refer to papers identified in table 2.12)

Ref No.	Authors	Year of Pub	Gaps identified and addressed by this research
1	Dibbern, Goles, Hirschheim & Jayatilaka	2004	<ul style="list-style-type: none"> <li>• <i>Better definition of the dependent variable – outsourcing success</i></li> <li>• <i>More research from the vendor’s perspective</i></li> <li>• <i>How do ITO arrangements change over time (more longitudinal research)</i></li> <li>• <i>Offshore outsourcing</i></li> <li>• <i>Broader perspective than just Anglo-American offshoring perspectives</i></li> <li>• <i>Research into ITO/BPO by small to mid-sized companies</i></li> </ul>
4	Parkhe	2007	<ul style="list-style-type: none"> <li>• <i>Use institutional theory as a lens to analyse off-shore ITO and BPO</i></li> <li>• <i>More longitudinal studies</i></li> </ul>
7	Busi & McIvor	2008	<ul style="list-style-type: none"> <li>• <i>Managing offshore service providers</i></li> <li>• <i>Performance Management in offshore services outsourcing</i></li> <li>• <i>Longitudinal research</i></li> <li>• <i>Combining theoretical lenses such as transaction cost economics and political/power theory</i></li> </ul>
8	King & Torkzadeh	2008	<ul style="list-style-type: none"> <li>• <i>Strategic implications of OBPO, including organisational learning and retained capabilities</i></li> <li>• <i>Management of cultural differences in OBPO</i></li> <li>• <i>What are the critical success factors in OBPO</i></li> </ul>
9	Hirschheim, Dibbern & Heinzl	2008	<ul style="list-style-type: none"> <li>• <i>Offshoring and/or Business Process Outsourcing</i></li> <li>• <i>Link between firm strategy and outsourcing</i></li> <li>• <i>Knowledge sharing between client and service provider</i></li> <li>• <i>Longitudinal studies (temporal dimension in BPO)</i></li> <li>• <i>Studies on outsourcing &amp; BPO success factors</i></li> <li>• <i>Managing cultural differences between client and service provider countries</i></li> </ul>
10	Oshri, Kotlarsky, Rottman & Willcocks	2009	<ul style="list-style-type: none"> <li>• <i>Trends in captive BPO centres</i></li> <li>• <i>“Best shoring”</i></li> </ul>
11	Alsudairi & Dwivedi	2010	<ul style="list-style-type: none"> <li>• <i>Institutional theory applied to outsourcing</i></li> <li>• <i>Identification of risks in offshore ITO/BPO</i></li> </ul>

12	Lacity, Khan, Yan & Willcocks	2010	<ul style="list-style-type: none"> <li>• <i>Study strategic outsourcing decisions longitudinally</i></li> <li>• <b><i>Critical success factors in ITO/BPO</i></b></li> <li>• <i>Configurational and portfolio approaches to outsourcing</i></li> <li>• <i>Studies on alternative destinations beside India</i></li> </ul>
14	Lacity, Solomon, Yan & Willcocks	2011b	<ul style="list-style-type: none"> <li>• <i>BPO innovation effects</i></li> <li>• <i>Alternative destinations besides India</i></li> <li>• <i>Supplier capabilities</i></li> <li>• <i>Knowledge process outsourcing</i></li> <li>• <i>Captive centres</i></li> </ul>
16	Schmeisser	2013	<ul style="list-style-type: none"> <li>• <i>Offshore outsourcing of high value-adding business processes</i></li> <li>• <i>Firm capabilities required to succeed with OBPO</i></li> </ul>
17	Liang, Wang, Xue & Cui	2016	<ul style="list-style-type: none"> <li>• <i>Managing perceived distance between client and supplier environments (including cultural distance)</i></li> <li>• <i>What are the strategic benefits from OBPO (e.g. leveraging suppliers' capabilities for innovation)</i></li> </ul>
18	Mihalache & Mihalache	2016	<ul style="list-style-type: none"> <li>• <i>How do firms accumulate knowledge about which processes are good candidates for offshoring?</i></li> <li>• <i>How do firms accumulate insights from previous and current OBPO into their future decisions?</i></li> <li>• <i>Firm capabilities required to succeed with OBPO</i></li> </ul>
19	Pisani & Ricart	2016	<ul style="list-style-type: none"> <li>• <i>Classification and disaggregation of services that are suitable for offshoring</i></li> <li>• <i>Offshoring of complex, knowledge-intensive services</i></li> </ul>
20	Lacity, Khan & Yan	2016	<ul style="list-style-type: none"> <li>• <i>Outsourcing of knowledge-intensive activities</i></li> <li>• <i>Shared services and captive centres</i></li> </ul>

The research gaps summarised in table 2.15 are those that this research sets out to address, with the development of a critical success factors model for conducting OBPO being one of the contributions of this research. The development and proposed testing of the OBPO critical success factors framework is discussed in Chapter Three (Research Framework). Chapter Six (Cross-case analysis) and Chapter Seven (Conclusions, contribution and limitations), which discusses in more detail the extent to which these research gaps have been addressed.

## 2.13 CONCLUSIONS

The aim of this literature review was to make a contribution in three areas. *Firstly*, to begin identification of a **critical success factors framework** for the OBPO phenomenon by analysing published articles from both the Information Systems (IS) and International Business (IB) research disciplines. *Secondly*, to conduct systematic analysis of **key themes** emerging from the research literature. *Thirdly*, to identify **research gaps** and hence to propose topics for future research.

The gaps in OBPO research that have been identified in the Literature Review, and hence are being addressed by this research can be summarised as follows:

1. Trends in offshore captive BPO centres, and explanations for the persistence of captive centres, including value proposition of offshore captive centres.
2. How do OBPO arrangements change over time (i.e. longitudinal research)?
3. Research into offshore ITO/BPO by small to mid-sized companies.
4. Careful attention to the definition of the dependent variable – offshore business process outsourcing success.
5. Use of institutional theory as a theoretical lens to analyse offshore ITO and BPO (especially when combined with other theories such as transaction cost economics, organisational learning and relational exchange theory).
6. What strategic management practices and capabilities can be developed to better manage the relationship with OBPO service providers, including Global Inhouse Centres (or “captives”) and arms-length vendors?
7. What are the critical success factors for OBPO? Can an overarching OBPO strategic management framework be developed and tested?
8. What are the strategic organisational implications (e.g. organisational learning, retained client company capabilities, knowledge transfer) of OBPO?
9. How do cultural differences between the client and service provider impact on successful management practices, communication and co-ordination?
10. Broader perspective than just Anglo-American case studies.

Despite increasing OBPO research output, the business outcomes from OBPO initiatives continues to be mixed, subject to risk and uncertainty (Milahache & Milahache, 2016), and firms continue to face a range of operational challenges (Larsen et al., 2013). Hence, there are specific calls for research that provides firms with a comprehensive framework for making better OBPO decisions (Srikanth & Puranam, 2011 and 2014; Mihalache & Mihalache, 2016). These calls lead to the primary research question:

*“What are the key factors that contribute to the success of business process outsourcing by Australian and international organizations to service providers located in India and the Philippines.”*

In summary, the questions that are being investigated in this research are strongly associated with the research gaps for OBPO that have been identified in published academic literature from the period 2004-2016.

## **CHAPTER 3 RESEARCH FRAMEWORK TO GUIDE IN-DEPTH CASE STUDIES**

### **3.1 INTRODUCTION**

The purpose of this Chapter is to document and justify the Research Framework that was used to guide data collection through in-depth Case Study research into the managerial practices and success factors of Australian and international companies that are conducting offshore Business Process Outsourcing (OBPO) to service providers located in India, the Philippines and other international locations.

The Research Framework described in this chapter was applied to develop propositions that were incorporated in a Case Study Protocol and a series of interview scripts (refer to Chapter Four and Appendices 4.1 and 4.3) that were utilised to gather data through a series of longitudinal case studies. The research objective of the in-depth case studies was to gather data and to test propositions leading to the confirmation or modification of a theoretical framework to guide management decision-making by Australian and international companies conducting OBPO to service providers located in India and other offshore locations.

This Chapter is organised around the following sections. Section 3.2 provides an overview of the research framework, which is comprised of four major concepts:

- Definition of success for OBPO (or OBPO success criteria);
- OBPO strategic and structural choices available to management in client companies;
- OBPO critical success factors that must be delivered through effective collaboration between management in client companies and their OBPO service providers;
- OBPO capabilities, governance, coordination and organisational learning that also contributes to success in OBPO.

The logical foundation for the research framework presented in section 3.2 below is that organisations frequently pursue OBPO initially as a result of competitive and stakeholder pressures to deliver cost reductions, but as experience is gained, these companies then find more strategic benefits from OBPO that transcends cost considerations (Youngdahl & Ramaswamy, 2008; Contractor et al., 2010; Pisani & Ricart, 2016). Hence, the success construct for OBPO needs careful consideration for each individual company and almost certainly will evolve over time. The evolutionary path that many client companies follow in developing OBPO means that there are a number of choices open to management in developing a client company's high-level structural approach to OBPO. As these strategic



choices are made and implemented, and the focus shifts to business benefits realisation, there are a set of critical success factors that require consistent management attention to realise the benefits from OBPO.

Since companies frequently pursue OBPO to achieve cost reductions, time taken to achieve the forecast cost savings and the associated service levels is of critical importance, and the drivers that support cost reduction on the one hand, and those that influence time taken to realise benefits on the other, might be different and may also be contradictory (Hutzschenreuter, Lewin & Dresel, 2011b).

For example, Hutzschenreuter et al., (2011b) point out that large cultural distances can slow down the process of transferring tacit knowledge associated with knowledge-intensive processes. However, obtaining significant cost savings from OBPO requires that these processes be transferred to locations such as India and the Philippines where larger pools of qualified personnel are available at lower salary levels. When these OBPO locations involve significant cultural differences with the client's country of origin, Hutzschenreuter et al., (2011b) argue that it will take longer to achieve cost savings and targeted service levels.

However, Whitaker, Mithas and Krishnan (2011) argue that companies that are succeeding with OBPO have learned from experience to overcome cultural distance and are able to apply this organisational learning to achieve effective governance of OBPO. Hutzschenreuter et al., (2011b) note that even with considerable offshoring experience, success in OBPO is not a trivial task for management. The degree of company-specific offshoring experience, management of cultural distance and selection of governance mode are seen by these authors as factors which influence OBPO success (Hutzschenreuter et al., 2011b).

As well as providing an overview of the research framework, section 3.2 also provides a summary of how the concepts in the framework were identified, developed and refined. A review of the OITO and OBPO literature (which is described in Chapter Two) identified a number of key factors that appeared likely to contribute to the success of OBPO arrangements. The overall research framework aims to combine these key factors (aka "critical success factors") into a best practice management framework or model.

The starting point for developing the research framework was the primary research question that is being addressed:

*What are the key factors and managerial practices that can contribute to the success or otherwise of offshore business process outsourcing by Australian and international companies to service providers located in India and other international destinations?*

Because the research question leads toward the development of a theory for explaining and predicting success in OBPO, an objective was to develop what (Gregor, 2006) refers to as a “Type 4 theory”. In terms of Gregor’s taxonomy of information systems theories, to construct a Type 4 theory requires that relationships between antecedent conditions and success be explained, and propositions tested with a view to confirming the strength and direction of the relationships (Gregor, 2006). Hence, Chapter Three has the objective of identifying critical success factors and their interrelationships, and providing a framework or model through which this can be tested in the longitudinal case studies.

A starting point for the research framework is the Literature Review (described in Chapter Two) which enabled major themes to be identified and analysed as potential critical success factors and/or managerial practices that were important for successful OBPO. Figure 2.1 from Chapter Two (reproduced below as figure 3.1 for this Chapter) contributes a starting point for developing the research framework.

**Table 3.1 Overarching logic for identifying major themes in OBPO research literature that contribute to the research framework.**

<b>What are companies’ motivations and objectives for conducting OBPO?</b>	<b>Management actions &amp; decisions that increase prospects of OBPO success</b>	<b>Increasing OBPO sourcing flexibility (learning and adapting from OBPO experience)</b>
<ul style="list-style-type: none"> <li>- competitive pressures</li> <li>- globalisation</li> <li>- company-specific drivers &amp; business context</li> <li>- disaggregation of value chain and selection of business processes for OBPO</li> <li>- institutional influences</li> <li>- degree of prior offshoring experience</li> </ul>	<ul style="list-style-type: none"> <li>- factors unique to OBPO</li> <li>- developing &amp; executing OBPO strategies</li> <li>- coordinating OBPO relationships across company value chain</li> <li>- managing institutional distance between client companies and OBPO service providers</li> <li>- arrangements for governance and coordination of OBPO</li> </ul>	<ul style="list-style-type: none"> <li>- adapting OBPO strategy and execution to changing business context</li> <li>- building OBPO capability</li> <li>- increasing company knowledge of OBPO and dissemination to key internal stakeholders (i.e. organisational learning)</li> <li>- managing and updating a company’s portfolio of OBPO engagements (OBPO configuration)</li> </ul>

Section 3.3 provides a description of the OBPO **success criteria** (or business objectives) that form one component of the overall research framework, including a justification of the success criteria and an explanation of how these were derived from the Literature Review.

Section 3.4 provides a description of each of the individual **critical success factors** that have been identified for inclusion in the management framework for OBPO, and a discussion of how these factors have been derived from the literature and why they are included.

The individual critical success factors were applied as explained in section 3.5 to derive 35 propositions that were used to test and verify the management framework by application of data collected in the longitudinal case studies. Section 3.6 discusses a preliminary field study that was conducted in order to validate and refine the research framework and propositions. Section 3.7 outlines the foundation theories that have been applied in developing the research framework while section 3.8 provides a Chapter Summary.

### **3.2 OVERVIEW OF THE RESEARCH FRAMEWORK**

Since an aim of the research is to bridge a gap between management practice and emerging academic theory, a research framework relevant to practitioners involved with OBPO strategic and investment decisions has been developed. The research framework has been based on a Critical Success Factors (CSF) approach. CSF are defined as those areas of activity, generally few in number, in which positive results will ensure successful business outcomes (Bullen & Rockart, 1981). Generally, CSF will be specific to business context, and have also been characterised as “things that must go right”, or those factors where favourable results are absolutely necessary to achieve satisfactory business outcomes (Bullen & Rockart, 1981).

In developing the CSF research framework for this chapter, transaction cost economics, relational exchange and institutional theories were applied, as described in more detail in Chapter Two (Literature Review). The development of the conceptual model presented in figure 3.1 below was based on a number of themes identified in the Literature Review that had been reported in previously published research to be important success factors for domestic ITO or BPO. Consistent with the recommendations of Dibbern et al., (2004) that emerging theory for BPO should be based on what is already known about ITO, the research framework also drew upon analogous concepts that had been proposed in the literature for offshore ITO (see for example Cullen et al., 2005; Rottman & Lacity, 2008; Westner & Strahringer, 2010). The conceptual model (critical success factors framework for effective management of OBPO) was also refined as a result of an initial exploratory field study that was conducted prior to the commencement of formal in-depth and longitudinal case study research.

From the Literature Review that is presented in Chapter Two, a series of research gaps and key themes were identified. A series of interviews with practitioner executives were conducted through an initial exploratory field study, which provided the opportunity to refine

and specify in more detail each of the key themes and critical success factors. This enabled a series of factors to be selected that are considered to be important in determining the business drivers (or motivation) that lead companies to consider offshore outsourcing, the key decisions that were involved in implementing OBPO, and also the BPO outcomes being sought and obtained.

The factors and identified gaps in the Literature Review were organised into the framework presented in table 3.2 below under the headings of:

- Success criteria (or definition of success or motivation) for OBPO
- Offshore Business Process Outsourcing management choices (i.e. choices that are available to be made by managers in client organizations)
- Offshore Business Process Outsourcing operational success factors

The critical success factors framework for effective management of OBPO presented in figure 3.1 has been developed after testing and validation of the concepts that are outlined in figure 3.2 below. Hence, the OBPO critical success factors framework addresses a research gap identified by Lewin and Volberda (2011) who made a plea for more research on global sourcing of business services, incorporating factors such as management intentionality, client companies' path-dependent experience, knowledge accumulation as well as institutional and environmental influences.

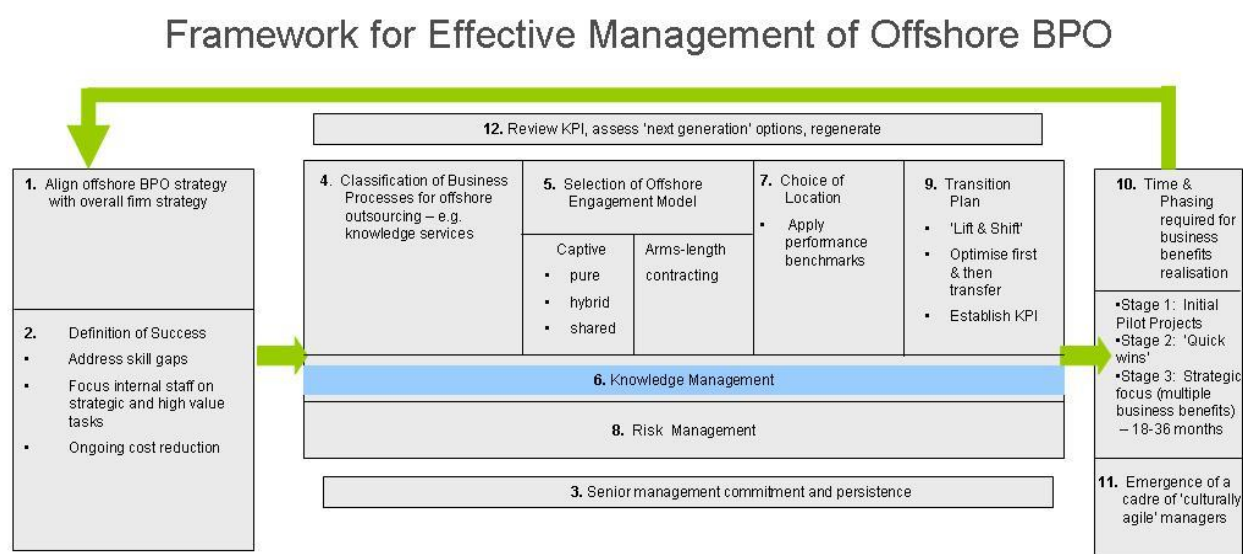
In the course of this research project, significant changes were made in both the number of individual critical success factors (CSF) and also in the arrangement of the overall CSF framework that is described in Figure 3.1 below. These and other changes that occurred in the course of the research are described in more detail in Chapter Seven section 7.3 (Design changes that occurred in the course of this research).

**Table 3.2 Schema for developing the research framework**

<b>Success criteria for OBPO</b>	<b>OBPO management choices</b>	<b>OBPO operational success factors</b>
<p>For each participating organisation, there will be a definition of success comprised of some or all of the following factors</p> <p>Ongoing cost reduction (i.e. cost savings)</p> <p>Addressing skill gaps and shortages</p> <p>Improving technical service quality (e.g. process improvement, access to world’s best practice in specific business processes)</p> <p>Focusing internal staff on strategic and high value tasks</p> <p>Other strategic or transformational goals</p>	<p>Classification of business processes to outsource</p> <p>Selection of OBPO engagement model (aka choice of internal or external governance mode)</p> <ul style="list-style-type: none"> <li>• Captive</li> <li>• Hybrid</li> <li>• Arms-length contracting</li> </ul> <p>Selection of offshore location for service provider</p> <p>Governance arrangements and performance management between client and service provider (e.g. Key Performance Areas, Service Level Agreements)</p> <p>Maintaining alignment between OBPO strategy and firm strategy</p> <p>Influence sources for OBPO choices</p> <ul style="list-style-type: none"> <li>• Mimetic</li> <li>• Normative</li> <li>• Coercive</li> </ul>	<p>Development of a Transition Plan and strategy</p> <ul style="list-style-type: none"> <li>• “Lift and shift” business processes, or optimise business processes first and then transfer</li> </ul> <p>Time &amp; Phasing required for business benefits realisation:</p> <p>Emergence of a cadre of “culturally agile” managers,</p> <p>Developing isomorphism between client and service provider</p> <p>Management of knowledge transfer to/from service provider</p> <p>Identification and treatment of risks</p> <p>Senior management commitment and persistence with OBPO</p> <p>Capturing organisational learning from OBPO, and developing company OBPO capabilities</p>

The research framework including the linkages between the factors listed in the above table can be represented in diagrammatic form as illustrated below.

**Figure 3.1 Critical Success Factors framework for effective management of OBPO**



### 3.2.1 Complementary OITO and OBPO research models

Support for the framework presented in figure 3.1 and for the key factors identified in table 3.2 and discussed in more detail in section 3.4, was subsequently obtained from Lacity, Solomon, Yan and Willcocks (2011), also referred to as Lacity et al., (2011a), in particular in figure 1 on page 231 (“The model of findings on BPO decisions and BPO outcomes”). There are similarities between the OBPO factors and research framework utilised in this research and those subsequently identified by Lacity et al., (2011a). However, the framework adopted for this research places greater emphasis on selection of engagement model, also referred to as choice of internal or external governance mode (Hutzschenreuter et al., 2011a; Elia, Caniato, Luzzini & Piscitello, 2014), and on those success factors that provide an explanation for the persistence of the captive model, and for the value proposition delivered by captive centres (Balaji et al., 2012).

Some elements of the Research Framework adopted for this research are analogous to the concept of a company’s ITO configuration that was presented by Cullen et al., (2005) in the context of domestic Information Technology Outsourcing (ITO) and subsequently refined in Cullen et al. (2008). Cullen et al. (2005) describes “ITO Configuration” as

*“An organisation’s high-level structural approach to IT outsourcing that provides insight into the choices open to management when making decisions about ITO.”*

The column in table 3.2 above headed “OBPO management choices” identifies key structural decisions and choices relating to OBPO that must be made by managers in the client company. These include factors related to offshore outsourcing that are not addressed either in Cullen et al., (2008) or Lacity et al., (2011a) such as:

- Selection of business processes that are suitable for OBPO;
- Choice of engagement model with offshore service providers (such as establishing a captive centre in another country or entering into an arms-length contract with an established OBPO supplier);
- Country location of the OBPO service provider;
- Managing cultural “distance”;
- Response of end customers in the client company’s home market to OBPO;
- Capturing OBPO organisational learning and developing company-specific OBPO capability.

Organisations that are contemplating OBPO face a very wide range of choices regarding strategy and configuration, and furthermore both the choices available and the individual managers making the choices will change over the lifecycle of an OBPO engagement (Cullen, Seddon & Willcocks, 2008). Hence, an important aspect of the research framework was to apply a longitudinal approach to data collection in order to determine how OBPO success factors changed over time.

### **3.2.2 Prior research on Critical Success Factors for OBPO**

Prior research on Critical Success Factors for OBPO appears to be scarce. An early article by Wreford, Pervan and Penter (2008) looked at CSF for offshore outsourcing of debt collection to India, as debt collection was one of the earliest knowledge-intensive activities to adopt an OBPO model. Palvia, Palvia, Xia and King, (2011) looked at critical issues from the perspective of Indian offshore **ITO** suppliers, and identified client relationship, commitment/sponsorship of clients’ senior management and clients’ readiness to transfer knowledge as the most important factors in offshore ITO success. While Palvia et al., (2011) adopted the OITO vendors’ perspective, Hodosi and Rusu (2013) conducted case study research from the ITO client perspective on two European multinational companies. Hodosi and Rusu (2013) identified 11 CSF for ITO, most of which are focused on antecedents to ITO.

As far as the author can establish, this research represents the first effort to develop a comprehensive CSF model for OBPO combining the perspectives of both clients and suppliers and with a particular focus on the offshore outsourcing of knowledge-intensive, higher value-added activities.

### **3.2.3 Complexity, interdependence, coordination and governance of OBPO**

When OBPO involves knowledge-intensive and high-value activities, both Elia et al., (2014) and Gerbl et al., (2016) note that it is essential that managers are aware of the complex interdependencies among a range of decisions and factors such as location choice, characteristics of business processes selected for OBPO, process codifiability and selection of engagement model (also referred to as governance mode). As companies adopt OBPO for knowledge-intensive activities, Elia et al., (2014) and Gerbl et al., (2016) also point out that the need for coordination mechanisms increases. Increased costs of coordination may erode the benefits from OBPO, a risk also noted by Larsen et al., (2013) who identified hidden costs in OBPO associated with the interplay between complexity and the need for increased coordination and governance.

The complex interdependencies among critical success factors also gives rise to significant path dependencies which can have the effect of locking the client company into a series of sub-optimal value chain configurations (Augustin et al., 2010; Contractor et al., 2010), or loss of flexibility in terms of future strategic options for OBPO. Path dependencies can arise in OBPO because path decisions are usually anchored in circumstances or events that occurred in prior phases of the OBPO Process.

In the case of arms-length contracting as the engagement model for OBPO, once a business process has been outsourced, the client company may have lost in-house capability (“hollowing out” impact of OBPO) and/or may face large search and contracting costs to exit from a sub-optimal contract and transition to a different OBPO service provider or to a different engagement model (Jensen et al., 2013; Elia et al., 2014).

## **3.3 SUCCESS CRITERIA FOR OFFSHORE BUSINESS PROCESS OUTSOURCING (OBPO)**

As was discussed in Chapter Two, a number of academic studies point to the somewhat surprising lack of an accepted success construct for measuring ITO and BPO outcomes (Dibbern et al., 2004; Cullen et al., 2008; Wüellenweber et al., 2008a). Both Wiener et al., (2010), and Whitaker et al., (2011) make the case for additional research to explicitly identify the potential benefits of OBPO.



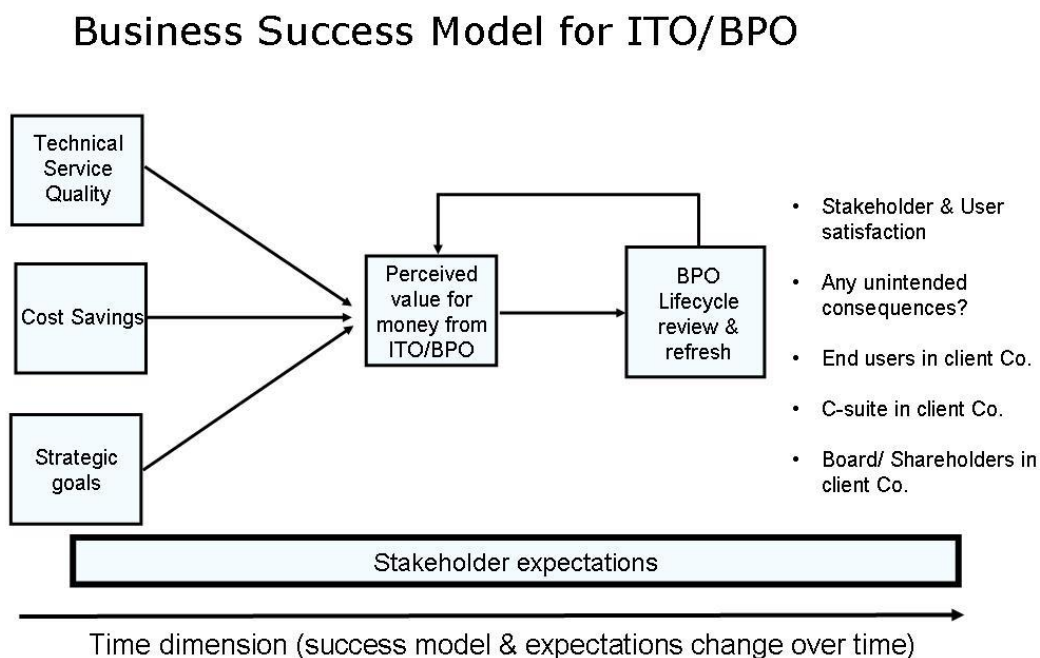
Hence, one component of the research framework has involved the development of a model for OBPO success which is depicted in figure 3.2 below. This OBPO success model draws upon concepts for *BPO success* proposed by Rouse and Corbitt (2004) and contains the elements of cost savings, technical service quality and strategic issues, and includes the dimension of stakeholder satisfaction judged relative to expectations as proposed by Seddon et al., (2002). Contractor et al., (2010) propose that cost reduction has been the primary motivation for OBPO, and that two other strategic motivations have gained in importance. Firstly, seeking external knowledge and expertise to bolster internal company capabilities. Secondly, positioning the client company to better understand and possibly to exploit offshore markets that may be available in the OBPO service provider location.

The model for OBPO success proposed in figure 3.2 is also consistent in high level terms with the 25-point conceptual framework for *ITO success* (Cullen et al., 2008), the high level parameters of which are defined as financial, operational and strategic. There is also a high degree of consistency between the *OBPO success* model outlined in figure 3.2 below, and the model of *OBPO success* presented in Wüellenweber et al., (2008a).

The proposed OBPO success research model presented in figure 3.2 recognises that outcomes sought are specific to business context, and will have a temporal dimension in that stakeholder expectations and business context will change over time.

**Figure 3.2 Success Criteria for organisations that are conducting OBPO**

(Source: Penter et al., 2009b)



### 3.3.1 Measuring cost savings from OBPO

In a study that focused on offshore ITO by a sample of US-headquartered client companies, Carmel and Agarwal (2002) reported that more than 90% of the firms interviewed were sourcing offshore to reduce costs. Cost savings are also identified in virtually all research on OBPO as a key motivation for success (Borman, 2006; Wüellenweber et al., 2008a; Contractor et al., 2010; Lacity et al., 2011a; Mani, Barua & Whinston, 2010; Owens, 2014).

As part of the research framework developed in this chapter, potential cost savings available from OBPO were analysed utilising both published academic research and also data obtained from OPBO suppliers such as WIPRO, INFOSYS, WNS and MphasIS, consultants such as Everest and the Indian industry association NASSCOM.

On the basis of extensive supply side experience, WIPRO reported that it could deliver consistently a 40% - 60% cost reduction to client companies located in the USA or UK (Roy, 2007). Cost reduction outcomes of this magnitude were calculated on the basis that for equivalent BPO activities, the differential in labour costs between locations in the USA and UK were 70% - 80% higher than in WIPRO's delivery centres in India, while the cost of coordination and control for client companies in UK and USA was 10% - 20% higher due to

the challenges of managing delivery from a remote location. Moreover, WIPRO considers that India's advantage in labour cost arbitrage is likely to exist for at least the next 20-30 years, a view that is partially supported by Asher and Nandy (2007) who point to India's demographic complementarities with the high-wage economies in which OBPO client companies are typically located.

Similar cost reductions have been reported by consulting firm Everest Group which conducts annual surveys of trends in labour costs for business processing activities. As shown in table 3.2.1 below, Everest Group tracks fully loaded salary costs for a Full Time Equivalent (FTE) staff member performing equivalent business processing activities in a range of more than 180 cities around the world, with annual costs normalised in US dollar terms using current applicable exchange rates. The data presented in table 3.2.1 was prepared in 2013. These labour cost comparisons are based on workers performing work defined as "Knowledge Process Outsourcing" (high end BPO activity), and demonstrate continuing cost advantages for major OBPO destinations such as India and the Philippines (Everest, 2014).

**Table 3.2.1 Estimated FTE cost for Knowledge Process Outsourcing (KPO) workers located in 4 representative cities (Source: Everest, 2014)**

Country	City	Equivalent USD fully loaded cost per annum for FTE working on KPO	Approx. percentage reduction compared to USA (Atlanta)
India	Mumbai	\$23,147	79%
Philippines	Manila	\$27,042	76%
Poland	Krakow	\$41,785	63%
USA	Atlanta	\$111,7333	

The basis of "nearshoring" destinations (Carmel & Abbott, 2007) is that labour cost reductions can still be obtained in nearshore locations while costs of coordination may be significantly reduced as compared to offshore outsourcing to more remote locations. As reported by Carmel and Agarwal (2002), equivalent labour costs in Canada at the time that data was collected were 35% lower than in the USA for some ITO activities, while for US-headquartered client firms, costs of coordinating ITO to Canada was significantly less than for more remote destinations such as India and the Philippines.

### 3.3.2 Technical service quality

Noting that OBPO success will often be specific to business context, a simple focus on cost savings alone may not be adequate to meet the satisfaction of the full range of stakeholders in an organisation, nor will it take into account the fact that an organisation's operational and even strategic objectives will change with time (Cullen et al., 2008; Contractor et al., 2010; Elia et al., 2014). Hence, a more comprehensive framework for measuring OBPO success is required, although it should be noted that not all the elements in the proposed OBPO success model will be equally important to disparate organisations (Elia et al., 2014).

Even if OBPO is delivering measurable cost savings, in determining whether OBPO is meeting the expectations of individual stakeholders in client organisations, it is important to verify that the quality of service being delivered enhances the overall value proposition (Youngdahl & Ramaswamy, 2008; Jensen et al., 2013; Elia et al., 2014). Ideally, the service quality from OBPO will be superior to that being experienced *prior to* commencement of the current BPO arrangements that are being evaluated. As noted by Elia et al., (2014), the quality of service delivered by OBPO providers is particularly important when the activities involve knowledge-intensive services.

For the purposes of defining technical service quality in the OBPO success model referred to in figure 3.2 and adapting from Cullen et al., (2008) and Wüellenweber et al., (2008a), the following elements are incorporated:

- Improved business process service
- Obtain access to business process services not available internally
- Obtain access to additional business process and technology expertise
- Obtain greater flexibility and scalability (e.g. capability to deal with work load “peaks”)
- Standardise business processes

### 3.3.3 Strategic benefits

It has been observed (Youngdahl & Ramaswamy, 2008; Jensen, Larsen & Petersen, 2013) that the “meteoric rise” of the incidence of OBPO has been driven by motivations that transcend cost reductions. Therefore, success models for OBPO need also to consider strategic benefits (Youngdahl & Ramaswamy, 2008; Contractor et al., 2010) which are likely to include some of the following:

- Simplification of the value chain of the firm or organisation, without adverse impact on customer service, brand image and reputation;
- Addressing skill shortages in client company;
- Focusing internal staff on core business and/or core competence;
- Access to industry best practice and to a larger pool of highly skilled professionals;
- Transformational outsourcing (Linder, 2004) through infusion of new skills, energy, innovation, knowledge and best practices;
- Increased project capacity and reduced turnaround time on projects through simultaneous task processing (i.e. cycle time reduction);
- Access to new markets for the client company's products and services.

For Australian and international firms operating in the Anglo-sphere (i.e. developed economies where English is the *lingua franca* of business), labour cost arbitrage while still attractive in terms of business benefits, may not be the sole business driver. Using Australia as an example of an anglo-sphere economy, labour and skill shortages have been experienced in some sectors of the Australian economy over the past decade. Hence, the opportunity to inject additional skills in sectors that are facing shortages would appear to represent a significant strategic motivation for OBPO (Contractor et al., 2010; Owens, 2014), especially in respect to tasks classified as Knowledge Services (i.e. Knowledge Process Offshoring).

Utilising customer service and contact centre work as an example, Owens (2014) points out that the number of Australian domestic contact centre seats has continued to rise annually, despite increased offshoring of such work. The time zone benefits of OBPO can be significant for industries where 24-hour and 7-day customer service is an essential business requirement. In some developed economies including Australia, contact centre work has traditionally been considered low-value work, and hence has experienced high attrition rates, absenteeism and recruitment challenges (Owens, 2014). By increasing a client company's flexibility to absorb surging workloads and by providing coverage during unpopular shift times (e.g. midnight to 7.00am), OBPO can provide strategic and transformational advantages in certain business contexts (Owens, 2014).

In developing the Research Framework, it was important to be precise in definition of the factors (i.e. propositions) to be explored in the in-depth case studies. A number of researchers (see for example Dibbern et al., 2004; Cullen et al., 2005) have pointed to the difficulties in ITO/BPO literature that arise because concepts and variables are being defined imprecisely or in different ways by different researchers, leading to the problem of conflicting results due to comparing "apples and oranges". Accordingly, in developing the Research Framework for the longitudinal case studies, careful attention has been paid to the definition of terms and the

boundaries of the phenomenon under study. The definitions and boundaries of the subject area (i.e. OBPO) being researched are discussed in detail in sections 2.4 and 2.5 in Chapter Two.

### **3.4 DESCRIPTION AND JUSTIFICATION OF THE INDIVIDUAL CRITICAL SUCCESS FACTORS (CSF) INCLUDED IN THE RESEARCH FRAMEWORK**

The key topics outlined in this section are a list of the individual critical success factors that have been identified, how they contribute to OBPO success, and the prior research publications used in developing the list of factors.

In the absence of well-established academic research on OBPO strategy, executive decision-makers have to proceed on faith, or rely on advice from outsourcing vendors and consultants (who may not be disinterested parties). As was noted in Chapter Two, this may involve significant risk because reversing a poor strategic choice will involve major switching costs and will be far slower than the path into the initial outsourcing decision (Rouse & Corbitt, 2007; Levina & Su, 2008; Augustin, Heinzl & Dibbern, 2010).

While there has been growth in academic literature on OBPO from 2006 onwards, strategic frameworks that provide guidance for senior management decision-making appear significantly under-researched (Rottman & Lacity, 2008; Schoeman et al., 2008; Lacity et al., 2011a). It is also common to find both academic and practitioner literature referring to relatively high rates of failure and management dissatisfaction with results of ITO decisions (Cullen et al., 2005; Rottman & Lacity, 2006; Jensen et al., 2013; Lacity & Willcocks, 2017). These findings suggest that offshore ITO/BPO research provides insufficient guidance in designing effective OBPO strategy.

Referring to BPO, Lacity, Willcocks and Rottman (2008) report that senior executives are facing a “dizzying set of evolving choices” in terms of sourcing locations, engagement models, service offerings from OBPO suppliers and maintenance of appropriate in-house capabilities. It is reported that this wide range of choices becomes a source of “constant conflict” in the advice presented by ITO/BPO literature, a view supported by Cullen et al., (2005) who report that organisations now face an “inestimable number of choices” (Lacity et al., 2008). Jensen et al., (2013) argue that many firms underestimate the challenges associated with OBPO and that factor frequently undermines the achievement of OBPO goals.

In the case of OBPO, comprehensive frameworks for effective organisational-level business performance improvement appear to be absent from the literature. Cullen et al. (2005) present an IT outsourcing configuration model that is defined as a “set of choices that an organization

makes in crafting its IT sourcing portfolio”. A major object of the ITO configuration model is to provide a conceptual framework for a theory of management of ITO agency issues between principal (i.e. host/client company) and agent (i.e. service provider). Different types of ITO arrangements lead to different types of agency problems that require management attention.

As noted in section 2.11 in Chapter Two (Literature Review) and also in section 3.2 above in this Chapter, Cullen et al. (2008) present a 7-attribute model of ITO choices available to management, but at least 4 dimensions relevant to OBPO appear to be missing from the model. In essence, the ITO configuration model of Cullen et al. (2005) refers to ITO not BPO, and assumes domestic rather than offshore ITO.

While Rottman and Lacity (2006, 2008) have provided guidance on offshore ITO, and have identified what are described as “twenty practices for offshore sourcing”, the context is offshore **ITO**, and the practices described are predominantly tactical and project-oriented rather than organisational-level (for example, “hire a legal expert to mitigate legal risks”). Practices identified by Rottman and Lacity (2006, 2008) that might be considered more strategic in nature include:

- i. Choice of sourcing location
- ii. Importance of managing a range of stakeholders
- iii. Proactive management of cultural differences

Also addressing offshore ITO (not OBPO), and analysing the relatively narrow domain of IT application development and maintenance by German client companies, Westner and Strahringer (2010) provide guidance on offshore ITO success factors (“determinants of success”) and identify the following:

- a. Previous offshore ITO experience
- b. Level of trust in the offshore service provider
- c. Suitability of project for transfer to offshore ITO provider
- d. Knowledge transfer between client company and offshore service provider
- e. Liaison quality between client company and offshore service provider

The generalisability of the determinants of success identified by Westner and Strahringer (2010) is limited by the narrow domain addressed in their research, with the unit of analysis in their research being offshore software projects, and also by the project-oriented success criteria which are limited to schedule, budget, functionality and quality of the delivered project.

As noted by Aubert et al. (2009), the strategic profile of a company or organisation is likely to influence OBPO strategy. Since this research aims to provide an organisation-wide OBPO management framework for senior executives, the research domain is broader than offshore ITO, and successful implementation of OBPO will influence share price, return on assets, operating profit and expenses.

Hence, the list of critical success factors identified in table 3.3 below has been selected on the basis that each is essential to achieve company-level OBPO success. Selection of the 12 critical success factors adopted for this research framework was on the basis of the author's assessment of the weight of arguments presented in published research together with data gathered in an exploratory field study. There was also a (somewhat arbitrary) preference to limit the number of critical success factors in order to provide a useful framework for senior practicing managers. In the final stages of this research, Lacity and Willcocks (2014a) identified nine practices that contributed to success with BPO initiatives. There is some overlap between the nine factors identified by Lacity and Willcocks (2014a) and the twelve factors identified below, although the focus in this research is more strongly on **offshore** BPO.

**Table 3.3 Critical success factors for effective management of OBPO**

No.	Factor	References
1	Align OBPO strategy with firm strategy	Aubert et al., (2009), Lacity et al., (2008), Contractor et al. (2010), Jensen et al., (2013).
2	Clear definition of success	Lacity et al., (2011a), Wüellenweber et al., (2008a), Whitaker et al., (2011), Cullen et al., (2008), Elia et al., (2014).
3	Senior management commitment and perseverance	Lacity et al., (2008), Palvia et al., (2011), Soderberg et al., (2013), Lacity & Willcocks (2014a).
4	Selection of business processes for offshore outsourcing	Carmel & Agarwal, (2002), Aron, Clemons & Reddi, (2005), Dibbern et al., (2008), Youngdahl & Ramaswamy, (2008), Contractor et al., (2010), Jensen et al., (2013), Elia et al., (2015), Gerbl et al., (2015 & 2016).
5	Selection of offshore engagement model	Ramachandran & Voleti, (2004), Lacity et al., (2008), Hutzschenreuter et al., (2011a & 2011b), Oshri & van Uhm, (2012), Elia et al., (2014, 2015).
6	Knowledge management	Kotlarsky & Oshri, (2005), Oshri, Kotlarsky & Willcocks, (2007), Oshri, Fenema & Kotlarsky, (2008), Rottman, (2008), Jensen et al., (2013).



7	Choice of location	Graf & Mudambi, (2005), Carmel & Abbott, (2007), Demirbag & Glaister, 2010, Aubert, Rivard & Templier (2011), Oshri & van Uhm, (2012), Gerbl et al., (2016).
8	Risk management	Aubert, Rivard & Patry, (2002), Carmel & Agarwal, (2002), Aron et al., (2005), Rottman & Lacity, (2008), Jensen et al., (2013), Lacity & Willcocks (2017).
9	Transition Plan, Governance & Coordination	Cullen, Seddon & Willcocks, (2005), Levina & Vaast, (2008), Jensen et al., (2013).
10	Time and phasing required for business benefits realisation	Carmel & Agarwal, (2002), Rottman & Lacity, (2008), Lacity et al., (2008), Hutzschenreuter et al., (2011b).
11	Emergence of a cadre of “culturally agile” managers	Ang & Soon, (2008), Levina & Vaast (2008), Gregory, (2010), Aubert et al., (2011), Jensen et al., (2013).
12	Review KPI, assess “next generation” options, regenerate	Cullen et al., (2005), Levina & Vaast, (2008), Whitaker et al., (2010).

### 3.4.1 Description and explanation for each of the individual factors

1. *Align OBPO strategy with overall firm strategy (in other words, define OBPO strategy within overall strategic context for firm).*

While this success factor may appear straightforward, a review of ITO literature suggests that comprehensive or holistic models of either ITO or BPO strategy are rare (Schoeman et al. 2008; Youngdahl & Ramaswamy, 2008; Tate, Ellram, Bals & Hartmann, 2009). It is important to review the strategic intent of OBPO captive centers or arms-length contracts at regular intervals, noting that criteria for business success and utilization of offshore assets will most likely change over time (Cullen et al., 2005; Lacity et al., 2008; Jensen et al., 2013).

Establishing and maintaining appropriate strategic alignment will be facilitated by effective governance arrangements for the OBPO project; in particular alignment of OBPO project objectives with business objectives, optimisation of resources committed to OBPO project, risk identification and management, alignment and communications mechanisms (Lacity et al., 2008; Rottman & Lacity, 2008). Maintenance of alignment also requires establishing clarity regarding decision-making rights that are being transferred to an offshore captive or OBPO service provider (Levina & Ross, 2003; Levina & Vaast, 2008).

Research evidence suggests that successful OITO and OBPO projects usually involve transfer of certain decision-making rights to the service provider (Levina & Ross, 2003; Levina & Vaast, 2008; Palvia et al., 2011). Hence, governance arrangements that provide clarity around

decision-making rights are an important success factor (refer also to Critical Success Factor 7 on transition and governance).

2. *A clear business rationale and definition of “success” for OBPO (e.g. cost saving, alleviate skills and resource shortages, access to additional knowledge, free up internal resources for growth opportunities, transformational outsourcing, etc.) is a critical success factor.*

Based on a comprehensive review of extant OBPO literature, Mihalache and Mihalache (2016) consider that potential benefits that can be obtained from successful OBPO can be classified into three categories; *efficiency-seeking* (such as reducing costs which is still the most prevalent motivation), *resource-seeking* (which often involves addressing skills shortages in the client company’s home location) and *flexibility-seeking* (which enables client companies to respond quickly to changing business conditions).

A number of researchers have argued (Tate et al., 2009; Mihalache & Mihalache, 2016) that, while the initial focus of OBPO is cost efficiency, over time as companies recognise that OBPO suppliers can also add value by providing resource and flexibility gains, client company expectations change, and OBPO is viewed as a source of strategic capability. As a consequence, it is likely that senior management expectations of benefits from OBPO will change over time (Tate et al., 2009), and that OBPO arrangements are often of a dynamic nature.

Hence, it is necessary to establish clear objectives and metrics for OBPO and implement a Performance Management System for OBPO execution that reflects the definition of “success” (see also section 3.3 in this Chapter). These metrics, which can be expected to involve detailed service level arrangements linked to the pricing model for the OBPO services, can also be applied to assist in selecting the most appropriate location for OBPO activities. Suitable governance arrangements (refer also to Critical Success Factor 9 on transition and governance) will also be essential to monitor the degree to which performance metrics are being achieved, and to “reset” these metrics when the objectives of OBPO change.

Refer to section 3.3 above for a more detailed description of the success criteria (i.e. the definition of success) that has been developed as part of the research framework.

3. *The commitment of significant senior leadership and management resources and significant perseverance is required to achieve OBPO success.*

Senior leadership commitment is recommended to understand the OBPO delivery environment, acquire knowledge of cultural factors that must be managed to achieve success,

build effective relationships with OBPO delivery partners, communicate the benefits obtained from OBPO to stakeholders and ensure that OBPO strategy is aligned with the firm's overall strategy (Lacity et al., 2008; Palvia et al., 2011; Soderberg et al., 2013).

The degree of senior management commitment and perseverance required is illustrated by Kaiser and Hawk (2004) who describe the 8-year evolutionary journey of a US-headquartered firm engaged in offshore outsourcing of software development, while Rottman and Lacity (2006) report that obtaining business benefits from offshore ITO requires an immense amount of hands-on management (refer also to Critical Success Factor 10 on time and phasing required for business benefits realisation).

*4. Classification and selection of the Business Processes to be outsourced (refer to Chapter Two, section 2.3 for frameworks for classification of BPO activities). This factor is likely to strongly influence selection of engagement options and also development of a knowledge management strategy for OBPO.*

A key aspect of OBPO is the transfer of originally co-located activities to offshore locations. When OBPO involves knowledge-intensive activities, opportunities for informal coordination are eliminated or severely reduced and teams working on end-to-end business processes may find it difficult or impossible to build collegial working environments and find common ground because they lack shared business context and there may be less direct communication between participants (Jensen et al., 2013), perhaps due to time zone differences, cultural or language barriers between geographically dispersed sites.

When knowledge-intensive activities are being outsourced to offshore locations, there must be coordination of the reciprocal interdependencies between the tasks required to be performed and within the extended team in the client company and the OBPO service provider that has responsibility (Jensen et al., 2013; Larsen et al., 2013). Often driven by a desire to reduce costs and/or respond to competitive pressures, companies break down their value chain into larger numbers of sub-processes so that some can be subject to OBPO (Contractor et al., 2010; Larsen et al., 2013). A consequence of this disaggregation of the value chain is that client companies are then faced with a larger number of interdependencies between the sub-processes. Success in OBPO requires that these sub-processes can be standardised and codified so that they can be more easily detached from the client company. Hence, selection of business processes suitable for OBPO and managing the knowledge transfer inherent in high value-added activities are both critical success factors.

Without careful selection of business processes for OBPO, service quality and realisation of operational efficiency can be undermined, and consequently, many companies have found unexpected challenges in OBPO that have prevented initial business objectives being achieved (Jensen et al., 2013; Larsen et al., 2013; Lacity & Willcocks, 2017).

5. *Systematically define and evaluate engagement options that match OBPO market capability against the nature of the processes and activities being outsourced, the business objectives for OBPO, and for any transformational goals (i.e. improvements over time in the cost, quality and functionality of the business processes). See also section 2.5 in Chapter Two above for a more detailed discussion of engagement options.*

For Australian and international firms seeking to engage in OBPO with service providers located in India, a variety of ownership and relationship structures are possible (Ramachandran & Voleti, 2004). The full range of options for selection of engagement model (also referred to by some researchers as “governance mode”) are discussed in detail in Chapter Two, sections 2.5 and 2.5.1, and can be summarised as follows:

- Establish a captive operation (i.e. wholly owned subsidiary) at a carefully chosen offshore location such as India;
- Engage through an arms-length contract with an Indian-headquartered company that is a global BPO service provider and which has a presence in the client companies home market (e.g. Australia or UK, etc.);
- Engage through an arms-length contract with a global multinational company that has a significant BPO workforce located in India (e.g. IBM Global Services, Accenture, etc.)
- Engage through an arms-length contract directly with OBPO service providers located in (for example) India or the Philippines. This model would involve the client company in conducting significant search and contracting activity in offshore locations such as India, the Philippines and other countries that are potentially destinations for OBPO.

While the value proposition of captive centres for OBPO remains significantly under-researched, Elia et al., (2015) note that the captive engagement model has particular strengths for knowledge-intensive, high value OBPO. Elia et al., (2014) argue that the higher the OBPO task complexity, the greater the risk that arms-length contracts with external service providers will not deliver adequate technical service quality to the client company. Consequently, Elia

et al., (2014) argue that OBPO of more complex tasks will generally require a captive governance mode.

6. *Develop and implement a formal Knowledge Management strategy for OBPO projects, noting that OBPO service providers (or captive operations) can often contribute significant domain expertise and knowledge of global best practice. A key issue is to ensure that tacit knowledge gained over time by the OBPO service provider(s) is captured and leveraged (see also factor 4 above on selection of business processes suitable for OBPO and factor 8 below in respect to a core capabilities model for both company and supplier capabilities).*

Some researchers have also referred to OBPO of high value or knowledge-intensive activities as offshoring of more advanced technical and administrative services (Dossani & Kenney, 2007). These business processes (or business services) are at the most creative and skill-intensive end of the continuum of OBPO. High value tasks may be characterised by the level of complexity, by the degree of discretionary business judgement and decision-making required of OBPO service provider staff and by the amount of tacit knowledge these staff will need to perform effectively.

Effectiveness of the knowledge management strategy in OBPO therefore has interdependencies with other CSFs, notably selection of processes for OBPO, choice of engagement model, time taken to realise business benefits and degree of senior management engagement and persistence, because such engagement by senior management may be required to remove bottlenecks or overcome internal resistance to transferring knowledge to OBPO service providers.

While there has been published research on the effective transfer of knowledge in **OITO** projects (see for example Kotlarsky & Oshri, 2005; Oshri, Kotlarsky & Willcocks, 2007; Oshri, Fenema & Kotlarsky, 2008; Rottman, 2008), research on two-way information flows between client company and OBPO service providers has been limited (Teo & Bhattacharjee, 2014). When OBPO involves knowledge-intensive activities, effective management of knowledge flows has been identified as both a critical success factor and a significant management challenge (Larsen et al., (2013); Gerbl et al., (2016)).

7. *Choice of location should be based on client companies' "definition of success", nature of the activities that are subject to OBPO, and engagement model (or governance mode)*

Location choice has been recognised as fundamental to OBPO decisions (Carmel & Abbott, 2007; Aubert et al., 2011), and published research on location choice is discussed in detail in Chapter Two, section 2.6 above. While published models for making OBPO location choice exist, Gerbl et al. (2016, p 1040) argue that there is still a research gap in our understanding of location choice, and “in particular the choice between local (i.e. domestic), nearshore and offshore”. A number of researchers have argued that company-attractiveness factors can only partially explain selection of OBPO location (Oshri & van Uhm, 2012; Gerbl et al., 2016), while Mihalache and Mihalache (2016) propose a multi-level model that takes into account country attractiveness at the OBPO location, client company factors including prior OBPO experience and task-level considerations (referred to by Gerbl et al., 2016 as process-level factors).

According to Gerbl et al., (2016), location choice needs to take into account both company-level and business process-level factors, and should involve consideration of business process factors such as level of end customer contact (referred to by Youngdahl & Ramaswamy, (2008) as “interaction intensity”), complexity, customisation and codification. The role of organisational learning may also be a significant influence on location choice, as the prior offshoring experience of a client company’s management team will shape location choices.

Other researchers (Mihalache & Mihalache, 2016) have argued that the OBPO location choice is particularly complex, and some factors that need to be taken into account may be contradictory, thus requiring client companies to make trade-off choices between (for example) lower labour input costs for skilled resources, and higher risks associated with managing perceived cultural and geographic distances.

Noting that the choice of location for OBPO is among the most important critical success factors, a number of researchers (Oshri & van Uhm, 2012; Schmeisser, 2013; Gerbl et al., 2016) have argued that client companies must evaluate and adapt their selection of OBPO location on a more or less regular basis in order to respond to forces of globalisation and competition. Noting that a major goal for this research has been to identify OBPO critical success factors and their interrelationships, it is important to note that Schmeisser (2013) and Gerbl et al. (2016) argue that selection of business processes (CSF 4), choice of engagement model (or governance mode) (CSF 5) and choice of location (CSF 7) are three of the most important strategic choices to be made by client company management.

8. *Conduct a formal risk assessment and develop a risk management plan for OBPO (refer to Chapter Two, section 2.11.1 for a more detailed discussion of key risk management issues). Revisit the formal risk management process at regular intervals (say 6-12 months) and address the specific risk of loss of organisational knowledge by adopting a core capabilities model such as that proposed by Feeny, Lacity and Willcocks (2005). Choice of location should also be validated as part of the initial formal risk assessment.*

A number of researchers have argued that OBPO offers potentially high returns to the client company but is also associated with high risk (Rottman & Lacity, 2006, 2008; Lacity, Khan & Willcocks, 2009; Jensen et al., 2013; Mihalache & Mihalache, 2016). It has been argued that OBPO risk can be classified into two broad categories; *strategic risks* which may arise from “hollowing out” of a client company’s core capabilities and hence its ability to innovate and compete, and *operational risks*. The latter arise as a consequence of performing business processes away from a “home” location with resulting loss of the ability to share tacit knowledge and solve problems in an informal face-to-face manner (Aron, Clemons & Reddi, 2005; Jensen et al., 2013; Mihalache & Mihalache, 2016).

In terms of operational risks associated with OBPO, these can arise from the following four factors (Contractor et al., 2010; Jensen et al., 2013) which are inherent in OBPO in action and must be mastered to achieve success:

- Transfer of knowledge to the OBPO service provider (which may be a captive);
- Managerial discretion (including decision rights) that must be transferred to the OBPO service provider (and thus creating potential for opportunistic behavior);
- Degree of exclusivity assigned to the OBPO service provider;
- Ability to reintegrate the outcomes from disaggregated and dispersed business processes to achieve the client company’s organisational goals.

As has been noted by Rottman and Lacity (2006, 2008), offshore outsourcing involves a difficult balancing act, as can be seen from the interrelated nature of the above risks. Risks associated with knowledge transfer from the client company to an OBPO service provider can be managed by focusing exclusively on one OBPO service provider, rather than dispersing limited resources across multiple OBPO service providers. However, assigning exclusivity to one OBPO service provider may increase risks associated with opportunistic behaviour or poor performance by the sole OBPO service provider (Jensen et al., 2013; Elia et al., 2014).

Where OBPO involves knowledge-intensive and/or high value-added activities, adoption of a captive engagement model (or internal governance mode) may significantly reduce risks (Lacity et al., 2008; Hutzschenreuter et al., 2011a; Jensen et al., 2013; Elia et al., 2015). Adoption of the captive engagement model will change the risk profile associated with OBPO especially when high value activities require significant transfer of tacit knowledge across national and cultural boundaries (Schmeisser, 2013; Jensen et al., 2013; Elia et al., 2015), as the captive model is seen to be more effective in these circumstances.

Adoption of a captive model in an offshore location does create its own set of risks, including the additional management overheads and resources needed to establish and manage an OBPO captive centre, and the problems that may be associated with high rates of staff attrition that can lead to loss of client company intellectual property (Hutzschenreuter et al., 2011a; Jensen et al., 2013; Elia et al., 2015).

Risk management associated with OBPO can be aided and abetted by rapid organisational learning and the transfer of OBPO knowledge and capability to relevant managers (Elia et al., 2015; Mihalache & Mihalache, 2016).

*9. Develop a transition plan for handover of the Business Processes that are being transferred offshore. For example, is it “lift and shift then optimise” or “optimise business process first” and then transfer?*

As noted by Contractor et al., (2010), Jensen et al., (2013) and Mihalache and Mihalache (2016), OBPO requires effective management action to coordinate across geographical, cultural and company boundaries. These challenges of coordination and communication may be exacerbated by differences in status, professional experience and competencies, access to economic resources, social networks and interpersonal connections (Levina & Vaast, 2008).

Client companies can address the need for coordination, communication and control in OBPO through a number of mechanisms including selection of engagement model, implementation of a formal knowledge management plan, and increased codification and modularity of tasks being outsourced (Srikanth & Puranam, 2011; Elia et al., 2015; Mihalache & Mihalache, 2016). These mechanisms will form part of a transition plan when parts of the client company’s value chain are disaggregated and relocated to an OBPO location (Contractor et al., 2010).

Where OBPO involves knowledge-intensive activities, both informal and formal transition and governance activities may be required in order to transition successfully the high degree of tacit knowledge that must pass to the OBPO service provider (Jayaraman, Narayanan Luo & Swaminathan, 2013). Mihalache and Mihalache (2016) argue that a captive operation may



more quickly develop a common understanding of two-way knowledge accumulation and transfer, and may also reduce status differences as referred to by Levina and Vaast (2008). If the OBPO engagement model is arms-length contracting, formal governance mechanisms will be more important in facilitating effective transition, and will include both contractual and relational governance (Srikanth & Puranam, 2011; Mihalache & Mihalache, 2016).

10. *Develop BPO project over time through a defined series of phases, possibly around the following sequence:*

*Stage One: Initial pilot projects in OBPO*

*Stage Two: Strong focus on “quick wins” such as cost reduction or reducing skills shortages*

*Stage Three: Strategic offshore focus (choice of engagement model confirmed and multiple sources of business benefits)*

*Establish realistic expectations about the high level of leadership and management commitment required to achieve success, and the time required to derive significant business benefits from OBPO whether through arms-length contracts or a captive centre (e.g. 18 to 36 months).*

A number of authors (Hutzschenreuter et al., 2011b; Mihalache & Mihalache, 2016) have observed that successful OBPO requires a series of trade-offs between potentially contradictory factors. For example, OBPO involving knowledge-intensive activities requires that tacit knowledge be transferred to locations such as India and the Philippines where larger pools of qualified, skilled personnel are available at lower salary levels. However, geographic, cultural and company boundaries can slow down the knowledge transfer process (in both directions) and hence delay business benefits realisation. OBPO conducted through arms-length contracts may involve protracted delays and significant overhead costs due to search and contract negotiation activities. On the other hand, establishment of a captive operation in an OBPO location will frequently involve significant cycle time for infrastructure set up, staff recruitment, training and induction.

Hence, nearshoring options remain popular with client companies because they may involve shorter cycle times to initial business benefit realisation, even though labour cost gains may be lower than could be achieved in more distant OBPO locations. Also, outputs from OBPO service providers in nearshore locations may encounter less internal stakeholder resistance in client companies. Realistic expectations are required about the time taken to obtain business benefits realisation from OBPO, especially strategic benefits.

As noted by Lacity, Willcocks and Rottman (2008), a series of pilot projects may also be useful to accelerate organisational learning.

11. *Identify, develop and mentor a cohort of “culturally agile” managers who can contribute to establishing relationship and trust in the case of an arms-length contract with an OBPO service provider, and a sense of “one organisation” in the case of a captive operation.*

Offshoring of knowledge-intensive business processes will involve exchange of tacit knowledge, including culturally-embedded work practices that may be difficult to separate from their business context (Abbott, Zheng, Du & Willcocks, 2013). Therefore, successful OBPO requires that a high degree of cultural communication and understanding be developed between the participating individuals and organisations (who will be geographically dispersed) in order to resolve conflicts and misinterpretations (Oshri et al., (2007). Published research on both OITO and OBPO has identified the importance of the practice referred to as “boundary spanning”, and the critical role of boundary-spanning managers in being both knowledge intermediaries and also building trust, cultural understanding and smooth collaboration (Levina & Vaast, 2008; Gregory, Prifling & Beck, 2009; Gopal & Gosain, 2010; Spohrer, Kramer & Heinzl, 2012; Abbott et al., 2013).

It has been suggested by Abbott et al., (2013) that published research on OBPO has not sufficiently taken into account the complexities of intercultural collaboration, and that the practice of organisational learning must also be applied in order to achieve OBPO success. Abbott et al. (2013) refer to the process of “creolization” (derived from the concept of intermingling of different ethnic and linguistic groups in colonized societies) which is a framework constructed on the elements of network expansion, mutual sense-making, cultural hybridisation and identity multiplicity. The concept of *network expansion* refers to a company participating in OBPO having to constantly monitor and reconfigure its global value network, a point also emphasised by Contractor et al., (2010) in the context of OBPO involving high value company functions.

To illustrate the interdependencies among the critical success factors, there is a strong path dependency between CSF 1 (aligning OBPO strategy with overall company strategy), CSF 3 (senior management commitment and perseverance) and CSF 11 (emergence of a cadre of “culturally agile” managers). Irrespective of engagement model, senior management must establish communication and alignment mechanisms between the client company and the OBPO service provider (which may be a captive operation), and ensure

that effective managers are in place in both the client company and OBPO service provider.

*12. Review and refresh the BPO strategy and choice of engagement options at appropriate intervals because both business context and supplier capabilities will change with time (Youngdahl & Ramaswamy, 2008).*

Consistent with the views of Carmel and Agarwal (2002) regarding maturation stages for OITO, Whitaker et al., (2011) note that client companies can learn from experience to overcome cultural distance and communications barriers to improve governance and performance in OBPO. Hence, a client company engaged in OBPO should regularly evaluate its OBPO portfolio in order to optimise its selection of business processes for disaggregation, selection of engagement models, performance management metrics and success criteria.

Where the OBPO engagement model involves a captive centre, Oshri and van Uhm (2012, p 282) argue that “managers need to assess their initial offshore captive investment in terms of functions offshored, preferred location and the optimal captive model every 3-5 years”.

### **3.5 DEVELOPING PROPOSITIONS FOR LONGITUDINAL CASE STUDIES**

As is discussed in Chapter Four (Research Methods), the longitudinal case studies were conducted in the positivist tradition. Hence the propositions have been formulated as possibilities for causal relationships between the definition of success for OBPO that is set out in section 3.3 above and the OBPO critical success factors that have been identified through the Literature Review and are further developed in section 3.4 above. In terms of Gregor’s (2006) taxonomy of information systems theories, a goal of the research was to generate Type 4 theory which would provide guidance for practicing managers by explaining and predicting relationships between antecedent conditions and OBPO success. Hence, one purpose of the propositions is to enable the strength and direction of causal relationships to be identified.

In framing the propositions, the logical framework set out in figure 3.1 and section 3.2 above has been applied, so that the propositions fall broadly into 3 groups:

- i. Companies’ motivation (success criteria) for OBPO
- ii. OBPO structural and strategic choices available to practicing managers
- iii. OBPO operational success factors and dynamic evolution of each company’s OBPO strategy (i.e. OBPO in action)

The arrangement of propositions is set out in table 3.4 below:

**Table 3.4 Arrangement of propositions by Critical Success Factor (CSF)**

Overall logical framework	Relevant critical success factors from table 3.3	Proposition numbers relevant to these CSF
Companies' OBPO success criteria	CSF 1, 2, 10, 12	P1-7, P32 [total 8 ]
OBPO structural and strategic choices available to managers	CSF 3, 4, 5, 7	P8-13, P17-20 [total 10]
OBPO operational success factors	CSF 6, 8, 9, 11, 12	P14-17, P21—31 [total 15]

### 3.5.1 Critical Success Factors and their associated propositions

In order to address the interdependencies between the CSFs and the dynamic and evolutionary nature of OBPO, some critical success factors are found in more than one category above. Propositions have also been formulated in a manner that will offer guidance to practicing managers as to what the challenges are likely to be at various stages in the OBPO “journey”.

To provide insight into the OBPO management decision-making process, additional propositions were also developed regarding influence sources on management, and the extent to which organisational learning may enable some companies to succeed more rapidly with OBPO, and some relationships between client companies and OBPO service providers to enable commonly encountered obstacles to be addressed.

#### **Factor 1 Align OBPO strategy with overall firm strategy**

It has been observed (Tate, Ellram, Bals & Hartmann, 2009; Contractor et al., 2010) that companies are frequently motivated initially to pursue OBPO to reduce costs, but then discover more strategic benefits, such as process improvements, more flexible delivery options, access to additional talent to address skill shortages, and access to new markets. As the capabilities of offshore service providers increase, client organisations will follow an evolutionary path in which it is important to clarify the strategic role of OBPO and ensure alignment with overall client firm strategy (Youngdahl & Ramaswamy, 2008). To be successful requires a dynamic and continuously evolving strategy process to adapt to trends, to maintain a strategic focus (Tate et al., 2009), and ensure rapid organisational learning (Whitaker et al., 2011).

Proposition 1: Successful OBPO will require that managers evolve relationships with OBPO service providers, and related governance structures, to ensure that OBPO strategy is aligned with overall client firm strategy.

Proposition 2: Companies that succeed with OBPO will capture and disseminate organisational learning and build company capabilities associated with OBPO.

## **Factor 2 Clear definition of success for OBPO**

A number of researchers have argued that while the forces of globalisation and competition are drivers of OBPO, there are significant differences in client company objectives and motivations for OBPO (Contractor et al., 2010; Schmeisser, 2013). Hence, understanding client company motivations for OBPO requires a co-evolutionary perspective that takes into account environmental pressures, management intentionality, path dependent experience and organisational learning (Lewin & Volberda, 2011; Schmeisser, 2013).

According to Schmeisser (2013), to build a successful OBPO strategy requires at a minimum that a client company make effective decisions regarding:

- disaggregation of its value chain and selection of processes for OBPO;
- location where OBPO is to be conducted;
- choice of OBPO engagement model (or governance mode).

Complexity in OBPO strategy and decision-making arises because client companies have to evaluate and adapt disaggregation, location and engagement model choices (and their interdependencies) at regular intervals to respond to competitive dynamics. Hence, a clear definition of success for OBPO and a performance management system that reflects this definition represents a critical success factor.

Proposition 3: Companies that succeed with OBPO will have a clear definition of success and some form of performance management system that enables progress to be tracked and reported. Client company goals for OBPO will include cost reduction, improved technical service quality and strategic benefits that will be company-specific.

In BPO classified as Knowledge Services, the cost reduction benefits for Australian and international *client* companies will be based on the following metrics:

Unit cost reduction from labor arbitrage will deliver productivity gains equivalent to a 50%-60% saving based on comparing equivalent Business Processes and equivalent volumes;

Increased overhead costs due to coordination and knowledge transfer “add back” (i.e. reduce) the labour arbitrage gains by an amount of 10% - 15% (in this context, increased overhead cost includes management time as a salary equivalent, travel and

accommodation, Information and Communications Technology costs and compliance and audit);

- Proposition 4: The “bottom line” metric is that OBPO improves productivity by at least 40% - 50% if executed successfully.
- Proposition 5: While these cost reduction metrics will change on an annual basis due to exchange rate variations and differential increases in salary costs in major OBPO destinations compared to client company locations, cost savings from OBPO will be sustainable over at least a 5-10 year period.
- Proposition 6: Technical service quality will be measured by the extent to which client company expectations for improved service levels from OBPO are being met, and any failure to match prior service levels will trigger management intervention.
- Proposition 7: While the initial areas of focus in OBPO will be on cost reduction and technical service quality, over time client companies will also seek strategic benefits from OBPO.

Strategic benefits may include the release of a proportion of client company staff and management capability for higher value tasks or high priority projects, addressing staff and skill shortages in the client company, access to enhanced knowledge and domain expertise from OBPO service providers.

Other strategic benefits may include reducing turnaround time on critical projects through simultaneous task processing using OBPO service providers, greater flexibility and responsiveness for the client company and market exploitation opportunities in OBPO locations.

### **Factor 3 Senior management commitment and perseverance**

As has been noted in the literature (Cullen, Seddon & Willcocks, 2008) success in OBPO is not guaranteed, and is highly specific to business context. Previous research (Rottman & Lacity, 2006; Jensen et al., 2013; Lacity & Willcocks, 2017) indicates that a significant proportion of offshore projects fail, and to achieve OBPO success requires persistent senior management effort and significant time. This effort is required from senior management in both the client company and also in the OBPO service provider.

The extent and quality of engagement between the respective senior managers in the client and supplier has been shown to be a significant contributor to OBPO success (Lacity & Willcocks, 2017). Reviewing critical issues from the perspective of OBPO service providers

headquartered in India, Palvia et al., (2011) argue that the most critical issue for senior management in these service providers is a willingness to have conversations with senior management in the client company regarding the relationship with the client and the client's organisational readiness for OBPO.

Proposition 8: Successful OBPO projects will be characterised by significant senior management engagement and by the quality of relationships between senior managers in the client and OBPO service provider.

#### **Factor 4 Selection of business processes for offshore outsourcing**

As has been noted above, the attributes of specific business processes will strongly influence both the nature of the OBPO arrangements and prospects for success. Both Contractor et al., (2010) and Gerbl et al., (2016) note that service design, unbundling and detachment of business processes, complexity, customisation and codification are important determinants of success that require further research (Jensen et al., 2013).

Proposition 9: Careful selection/classification of business processes for OBPO will be a Critical Success Factor because the largest cost savings for Australian and international client companies will come from OBPO of knowledge-intensive and high value-adding services (aka "Knowledge Process Outsourcing") that require high levels of domain knowledge

#### **Factor 5 Selection of OBPO engagement model**

When strategic OBPO involving knowledge-intensive activities is performed through arms-length contracts, it involves inherent tensions and requires a difficult management balancing act. Through research on 21 large US companies that have utilised offshore outsourcing, Rottman and Lacity (2006) have identified 15 management practices necessary for effectively offshoring IT work. The authors report that while business benefits have been obtained from these arrangements, success requires an immense amount of hands-on management, which increases transaction costs and can erode overall savings (Rottman & Lacity, 2006). For example, among the companies in the research study, transaction costs for offshore projects were approximately 50% of contract value compared to 5% to 10% for domestically outsourced projects (Rottman & Lacity, 2006).

Utilising a "captive" operation may eliminate some of the inherent tensions and management overheads associated with arms-length contracting. In a captive operation, internal contracting is simpler and less risky, capturing and leveraging knowledge gained in the offshore operation is easier and security and confidentiality concerns can be mitigated (Carmel & Agarwal, 2002).

The institutional and regulatory environment of a client company's "home" or corporate location may also influence selection of engagement model. Hutzschenreuter et al., (2011a) and Tate et al., (2009) argue that institutional factors will play a significant role in choice of governance mode (or engagement model), noting that US, UK and Dutch firms are much more likely to choose an external governance mode (i.e. contract-based arrangements) than their German counterparts. Based on case study research conducted primarily on German companies, Gerbl et al. (2015) concluded that choice of captive model in the cases studied resulted from a complex evaluation of factors that were interdependent, including nature of the business processes being outsourced, company context and location choice.

Proposition 10: The type of engagement option that is selected will be influenced by the nature of the BPO activities (e.g. knowledge services compared to rule set processing) and the business objectives.

Proposition 11: For higher order business processes that fit the definition of "Knowledge Services" and/or where transformational gains are sought (Linder, 2004), adoption of a captive engagement model will be the preferred option.

Proposition 12: Key risk factors associated with successful management of captive operations including containing high staff turnover rates (e.g. 25%-30% per annum).

Proposition 13: Relationship quality (especially both firms demonstrating trustworthiness) will be a key success factor in BPO engagements managed through arms-length contracts.

## **Factor 6 Knowledge Management**

Successful OBPO (particularly of knowledge-intensive activities) requires that client companies and their OBPO service providers are able to transfer across national and cultural boundaries knowledge that is difficult to codify, replicate and standardise (Schmeisser, 2013; Jensen et al., 2013; Gerbl et al., 2016).

A consequence of the disaggregation of value chains (Contractor et al., 2010) that forms part of OBPO is that companies are faced with a larger number of interdependencies between sub-processes. Once knowledge-intensive activities have been relocated to OBPO locations, client companies must then be able to re-integrate outputs from OBPO with remaining client company activities so that effective coordinated action occurs (Jensen et al., 2013). Successful OBPO therefore requires that client companies can disaggregate and transfer knowledge-intensive activities without severely disrupting the critical interdependencies between these business processes.



Enablers of two-way knowledge transfer in OBPO may include a shared professional commitment and identity between client and service provider teams, and staff who may be considered as boundary-spanners helping their respective organisations manage knowledge transfer across geographical and cultural and company boundaries (Levina & Vaast, 2008; Jensen et al., 2013). Senior leadership teams in client and service provider companies can facilitate this process by investing in and supporting activities designed to build social capital and a sense of partnership between the two companies (Rottman, 2008)

Proposition 14: Successful OBPO projects will have a formal Knowledge Management strategy, which will take into account two-way knowledge flows between client and service provider (noting that OBPO service providers and captive operations can often contribute significant domain expertise and knowledge of global best practice).

Proposition 15: OBPO that involves significant levels of contact with end customers and high levels of domain knowledge will require greater levels of commitment to knowledge management.

Proposition 16: Where high value tasks have a low degree of codification, knowledge management can be performed more effectively through a captive operation than by arms-length contracting.

Proposition 17: Culturally agile or boundary-spanning managers will play a significant role in successful knowledge transfer.

### **Factor 7 Choice of OBPO location**

As discussed in Chapter Two, section 2.6 and section 3.4 in this Chapter Three, choice of location for OBPO involves a complex range of factors and interdependencies (Mihalache & Mihalache, 2016). There has been some debate about the extent to which distance still matters in OBPO (Carmel & Abbott, 2007), and the proliferation of near-shoring options suggest that it still does. It appears widely recognised in the literature (Aubert et al., 2011; Dibbern et al., 2008; Jensen et al., 2013) that cultural and geographic distance between the parties involved in an OBPO transaction does generate additional management costs. However, organisational learning appears to be a factor in OBPO location choice, with some client company management teams demonstrating the ability to more rapidly master the skills associated with managing across geographic, cultural and company boundaries. In terms of Aubert et al., (2011), these management teams have succeeded in reducing “perceived distance”.

Other researchers (Oshri & van Uhm, 2012; Gerbl et al., 2016) have emphasised that location choice needs to take into account a complex range of interdependent factors, while Mihalache and Mihalache (2016) propose a 3-level model comprising country-attractiveness at the OBPO

location, client company characteristics and nature of the OBPO activities, and also point out the need for client company management to identify and make trade-offs between contradictory factors.

Companies seeking locations for OBPO have an extremely wide scope, as Willcocks, Griffiths and Kotlarsky (2009) have identified over 120 countries that were promoting themselves as suitable destinations for OBPO. As discussed in Chapter Two, section 2.6 above, there appears little doubt in the academic and trade literature that India currently dominates as the country that is the destination for most offshore business process outsourcing (Graf & Mudambi, 2005; Everest Research, 2017), although in some aspects of OBPO, the Philippines appears to be approaching parity with India. India exhibits a number of country-attractiveness factors that contributes to its comparative advantage as an OITO and OBPO.

Proposition 18: Choice of OBPO location will be influenced by a range of factors including country-attractiveness of the OBPO location, client company factors including previous management experience, and process characteristics of the OBPO activities.

Proposition 19: India has a sustainable competitive advantage as an OBPO destination for knowledge-intensive activities which could last for at least the next 10 years, for client companies from English-speaking countries.

Proposition 20: The Philippines also offer significant advantages as an OBPO location for client companies from English-speaking locations, and is approaching parity with India for certain OBPO activities.

### **Factor 8 Risk management associated with OBPO**

Practitioner sources (e.g. Gartner) report widely varying success rates with OITO and OBPO (Rottman & Lacity 2008; Aron & Singh 2005; Lacity & Willcocks, 2017). For example, Rottman and Lacity (2006) report a Gartner survey that found a 50% failure rate for offshore outsourcing initiatives. Rottman and Lacity (2008) also report on a case study involving 21 offshore outsourcing projects conducted over a two-year period by a US-headquartered Biotechnology firm. A number of these projects were not successful in meeting cost, quality and productivity objectives. Lacity and Willcocks (2017) report that 50% of business services outsourcing relationships (a combination of ITO and BPO) result in poor outcomes, demonstrating that despite almost two decades of experience with OBPO, challenges still persist.

One possible contributing factor to the challenges associated with managing OBPO successfully may be management over optimism or lack of focus on risk management. In the

context of research into management of risks associated with IT outsourcing, Aubert, Rivard and Patry (2002) note that managers making decisions with respect to IT and outsourcing are often overly optimistic.

Even successful OBPO initiatives can present significant and unforeseen management challenges (Larsen et al., 2013; Elia et al., 2015). Hence, it is advisable that management decision-makers adopt a structured approach to risk assessment and management of OBPO.

As has been noted in Chapter Two, sections 2.11.1, 2.11.2 and in section 3.4 of this Chapter Three, while there are published articles on management of risk in OITO and OBPO, much of this literature assumes that the engagement model is arms-length contracting. Hence, significant focus is placed on risks associated with principal-agent issues and incomplete contracts (Aubert et al., 2002; Aron, Clemons & Reddi, 2005; Lacity & Willcocks, 2017). However, risks in these categories can be reduced significantly if a captive operation is selected as the engagement model (Lacity et al., 2008; Hutzschenreuter et al., 2011a; Elia et al., 2015). It is also likely that the captive model will introduce alternative sources of risk (Ramachandram & Voleti, 2004; Bhagarva & Bhartia, 2005; Jensen et al., 2013; Elia et al., 2015).

Proposition 21: Companies that succeed in managing OBPO will have a defined and proactive approach to identifying and managing risks associated with these activities.

Proposition 22: Effective organisational learning in OBPO and transfer of relevant knowledge to key managers will be important in successful management of OBPO.

Proposition 23: Risk profiles are different depending upon the engagement model selected for OBPO (see also factor five above).

Proposition 24: Key risk factors associated with successful management of OBPO will include containing high rates of staff attrition (i.e. staff turnover rates approaching 25% - 30% per annum), and appointing and retaining senior managers capable of boundary-spanning (see also Factor 11 on emergence of a cadre of culturally agile managers).

## **Factor 9      Transition Plan & Governance**

Effective governance will ensure alignment of OBPO objectives with business objectives, optimisation of resources committed to OBPO projects, risk identification and management, and communications and knowledge sharing mechanisms together with clarity regarding

decision-making rights that are being transferred to the OBPO service provider (Levina & Ross, 2003; Bekmamedova & Shanks, 2012; Jensen et al., 2013; Lacity & Willcocks, 2017). Hence, effective management of Transition and Governance is important in its own right as a CSF and is also closely linked to Critical Success Factors 1, 2, 6 and 8.

Proposition 25: Successful OBPO will involve a transition plan for handover of the Business Processes that are being disaggregated and transferred to an OBPO provider. For example, is it “lift and shift then optimize” or “optimise business process first” and then transfer?

Proposition 26: Successful OBPO projects will be characterised by effective, formal governance arrangements involving senior management representatives of the client and service provider.

Proposition 27: Governance arrangements will establish clear objectives and metrics for OBPO and implement a Performance Management System for OBPO execution that reflects the definition of “success”.

Proposition 28: Successful OBPO projects will exhibit strong communication and alignment mechanisms between the client company and the service provider located in an offshore location (irrespective of whether the service provider is an independent company or a wholly owned subsidiary or “captive” operation of the client). In the case of an arms-length contract with an independent service provider, it is a critical success factor to establish relationship quality and trust, and a sense of “one organisation” in the case of a captive operation.

Proposition 29: Successful OBPO requires that client and supplier agree upon the transfer to the supplier of sufficient and well codified decision rights in the execution of business processing.

#### **Factor 10 Time and phasing required for business benefits realisation**

Describing a successful offshore IT outsourcing relationship between a US-headquartered financial services company and a leading India-based IT services provider, Kaiser and Hawk (2004) describe how the relationship has evolved over eight years through a series of maturation stages to what is now described as a “cosourcing” model. The complexities in managing this type of “cosourcing” relationship are illustrated by the apparently contradictory nature of some of the recommendations of Kaiser and Hawk (2004) on the management of this type of offshore outsourcing; for example:

- Build trust but avoid creating a binding relationship; and

- Foster mutual understanding of ethnic and corporate cultures.

If OBPO engagement is through a captive centre then time will be required to establish the new entity in the offshore location. This will include time required to recruit and train staff, set up local infrastructure and establish a local management team who can deliver on the expected OBPO outcomes. As noted by Hutzschenreuter et al., (2011b), an experienced OBPO service provider will bring organisational capabilities that will facilitate a smooth transition and relatively fast ramp up, although the identification and evaluation of suppliers may in itself be time consuming.

Proposition 30: Client firms that achieve success with OBPO will have realistic expectations about the high level of senior management leadership and commitment required to achieve success, and the time required to derive significant business benefits from OBPO (e.g. 18 months to 36 months) (Kaiser & Hawk, 2004; Rottman & Lacity, 2008; Levina & Vaast, 2008).

Proposition 31 The time required to achieve forecast cost savings and targeted service levels will be lower in the case of OBPO conducted through an arms-length contract than OBPO conducted through a captive centre.

### **Factor 11 Emergence of a cadre of culturally agile managers**

Two management practices, boundary spanning and empowerment of OBPO delivery partners, were identified by Levina and Vaast (2008) as contributing to success in OBPO, by moderating the potentially negative consequences of cultural and status differences. Whitaker et al., (2010) found that client companies with strong capability in business process codification were more likely to engage in successful OBPO.

Taking the perspective of Indian ITO suppliers, Palvia et al., (2011) argue that cultural, language and time zone differences are manageable provided that the client's organisational readiness for offshoring is adequate and the client and supplier are able to manage an effective working relationship.

Proposition 32: Successful OBPO requires the presence of an adequate number of "culturally agile" managers in both client and supplier.

### **Factor 12 Review KPI, assess "next generation" options and regenerate**

While companies will have an initial focus primarily on obtaining cost reductions from OBPO, Tate et al., (2009) argue that over time, as client companies gain knowledge of and capability with OBPO, expectations of strategic benefits increase. In addressing implications for

practicing managers, Tate et al., (2009) argue that OBPO is a dynamic and continuously evolving process and so requires regular monitoring to identify trends, and also to capture more strategic benefits than just cost reduction. This requires a value chain perspective, a point also made by Contractor et al., (2010).

Noting the importance of developing OBPO organizational capability, Lacity, Willcocks and Rottman (2008) note that experimentation with emerging sourcing trends is an important mechanism for developing organisational learning and building capability.

Proposition 33: Companies that succeed with OBPO will develop processes for regular review and evolution of their offshore services sourcing strategy.

### **3.5.2 Influence sources on management in OBPO decisions**

Earlier research into ITO had demonstrated that outsourcing can involve highly imitative behavior by management teams (Cullen et al., 2005) where organisations duplicate outsourcing decisions based on imperfectly observed behavior of other companies (which may be competitors in the same industry). Both Tate et al., (2009) and Hutzschenreuter et al., (2011a) note (at least in a German context) that client companies are observed to be enacting similar strategic choices in OBPO.

Hence, the research framework also includes propositions that are aimed at understanding the strength of various influence sources that applied to the senior management teams in the in-depth case studies.

Propositions 34: Influence sources such as OBPO strategies and decisions of competitors in the same industry will have significant mimetic impact on management decisions regarding OBPO.

Propositions 35: In certain types of OBPO activities that involve service provider personnel having direct contact with end customers of client companies (e.g. voice services), customer preferences may exert coercive influence on management decisions.

### **3.5.3 Organisational learning as an OBPO success factor**

The high complexity of OBPO is driven in large part by the interrelatedness of many of the critical success factors. Mihalache and Mihalache (2016) argue that this has largely been overlooked in published research. Client companies face a multiplicity of choices and decisions regarding OBPO and need to ensure that their decisions are congruent.

The prior OITO or OBPO experience of client company management, their capability to learn from that experience, and to disseminate knowledge about OBPO to relevant decision-makers plays a central role in successful implementation of OBPO (Mihalache & Mihalache, 2016).

Companies that succeed in OBPO that involves knowledge-intensive activities (both client companies and OBPO suppliers) develop dynamic capabilities to coordinate geographically dispersed networks of higher value-adding tasks and productive activities (Contractor et al., 2010; Westner & Strahringer, 2010; Mihalache & Mihalache, 2016). For client companies, such dynamic capabilities are likely to include cultural intelligence (or agility) of managers (Ang & Inkpen, 2008) and management of OBPO suppliers (King & Torkzadeh, 2008).

A related model for client company capability is that developed by Carmel and Agarwal (2002). Although concerned only with offshore outsourcing of IT work, the maturation stages proposed appear to be highly relevant to the capabilities required for successful OBPO. A limitation is that Carmel and Agarwal's research is highly US-centric, being based on interviews with executives in 13 large US-headquartered firms. Maturation stages identified through the research are described in the following table:

**Table 3.5 Maturation stages for client companies' OBPO capability (Source: Carmel & Agarwal, 2002)**

Stage No.	Description	Summary of key management practices
1	Offshore bystander	Domestic outsourcing only
2	Offshore experimenter	Experimentation and pilot projects offshore
3	Proactive cost focus	Focus on cost reduction from OBPO of non-core activities. Organisational structures to manage offshore ITO emerging
4	Proactive strategic	Focus on multiple sources of business advantage such as access to talent and skills, reduced cycle time on major projects. Mature organisational arrangements and executive leadership.

Proposition 2: Companies that succeed with OBPO will capture and disseminate organisational learning and build company capabilities associated with OBPO.

### **3.6 VALIDATION AND REFINEMENT OF THE CSF RESEARCH FRAMEWORK**

As part of the overall research design which is discussed in Chapter Four (Research Methods), a preliminary field study was conducted, during which the research framework was validated and refined.

The preliminary field study involved visits to India and discussions with a range of OBPO industry stakeholders including executives in client companies and service providers, industry associations such as NASSCOM and visits to OBPO facilities for observation and discussions with staff.

A small number of modifications were made as a result of the data obtained from this preliminary field study. The number of factors was reduced from an initial 16 to the 12 factors described in this chapter, and there were amendments made to some of the propositions that were subsequently tested in the in-depth longitudinal case studies.

### **3.7 UNDERPINNING THEORIES USED TO ANALYSE OBPO**

What has been described as the “meteoric rise of the incidence of” OBPO (Youngdahl, Ramaswamy & Verma, 2008, p. 135) appears to be driven by factors that transcend the labour cost arbitrage that can be obtained by leveraging the deep pools of well-qualified professionals available in locations such as India, the Philippines and China (Manning, Larsen & Kannothea, 2017). Hence, the growth that has occurred in OBPO appears to have resulted from a combination of environmental (or institutional), cost-efficiency and competitive pressures.

Moreover, some companies have accumulated significant OBPO experience and capabilities as a result of being active in OBPO for almost three decades (Manning et al., 2017). The experience of early OBPO adopters such as British Airways, General Electric, American Express and ANZ Bank generated confidence among followers leading to the establishment of OBPO “knowledge service clusters” (Manning et al., 2017, p. 6) in locations such as Bangalore, Manila and Dalian.

While transaction cost economics has traditionally been concerned with the boundaries of the company and “make or buy” decisions (Williamson, 1979) and hence has explanatory power for OBPO decisions where a primary motivation of the client company is cost reduction, institutional theory provides a complementary view of OBPO decision-making in organisations (Scott, 2005). Noting that the OBPO phenomenon has been driven by factors that transcend cost considerations alone, Youngdahl, Ramaswamy and Verma (2008) argue that multiple perspectives are required to understand the diversity of strategic, operational and organisational factors that emerge from the OBPO phenomenon.



In developing propositions in the research framework, institutional theory has contributed to an understanding of the environmental factors that influence management decision-making in OBPO. For example, the rush of Fortune 500 companies following General Electric, American Express and British Airways to establish OBPO to India could be seen to result from imitative behavior as their management sought legitimacy, resources and survival capabilities by following norms laid down by the successful early adopters.

A resource-based view (RBV) leads to an understanding that sustainable competitive advantage is obtained from certain resources and/or hard-to-imitate capabilities that a particular company is able to obtain and mobilise faster and to a greater extent than competitors (Barney, 1991; 1999). It has been argued that OBPO is a resource seeking mechanism and that RBV combined with organisational learning perspectives is important for understanding OBPO as a strategic rather than purely operational practice (Mihalache & Mihalache, 2016).

Several researchers have observed that a combination of underlying theories may offer a deeper understanding of ITO and BPO management decisions and outcomes (Miranda & Kim, 2006; Perrin, 2007; Jayatilaka & Hirschheim, 2009; Lacity, Willcocks & Khan, 2011). Referring specifically to OBPO, Lahiri and Kedia (2011), Tate et al., (2009) and Mihalache and Mihalache (2016) provide support for the view that application of a combination of underlying theories can provide additional insight and explanatory power for the OBPO phenomenon.

Accordingly, in developing the research framework presented in this Chapter, four theoretical lenses have been applied; transactional cost economics (TCE), resource-based view of the firm (RBV) combined with organisational learning and Institutional Theory. Each of these theories and their application to OBPO are discussed in more detail in Chapter Two (Literature Review).

Each of the theoretical lenses has been utilized to develop propositions that are used to test the CSF framework. For example, RBV is highly relevant to P1 and P2 dealing with alignment of OBPO strategy with overall company strategy and with organizational learning, P8 dealing with senior management commitment, P32 and P33 dealing respectively with the presence of an adequate number of “culturally agile managers” in both client and supplier, and regular review and regeneration of OBPO strategy. TCE is highly relevant to P3-7 dealing with cost savings obtained from OBPO.

### 3.8 CHAPTER SUMMARY

This Chapter has documented and provided justification for the research framework that was used to guide data collection through the case studies. The research framework was applied to develop a series of propositions that were tested through in-depth longitudinal case studies. Section 3.2 provides an overview of the research framework which is comprised of four major components.

- Definition of success for OBPO (or success criteria);
- OBPO strategic and structural choices available to management in client companies;
- OBPO critical success factors that must be delivered through effective collaboration between management in client companies and their OBPO service providers;
- OBPO capabilities, governance, coordination and organisational learning that contributes to success in OBPO.

The logical foundation for the research framework is that organisations frequently pursue OBPO initially as a result of competitive and stakeholder pressures to deliver cost reductions, but as experience is gained then find more strategic benefits from OBPO that transcends cost considerations. Hence, the success construct for OBPO, which is developed in section 3.3, needs careful consideration for each individual company and almost certainly will evolve over time.

The evolutionary path that many client companies follow in developing OBPO means that there are a number of choices open to management in developing a client company's high-level structural approach to OBPO. As these strategic choices are made and implemented, and the focus shifts to business benefits realisation, there are a set of critical success factors that require consistent management attention to realise the benefits from OBPO. The Critical Success Factors model is explained in detail in section 3.4.

Section 3.5 explains the propositions that have been formulated in order to explore and validate causal relationships between the definition of success for OBPO that is set out in section 3.3 above and the OBPO critical success factors that have been developed in section 3.4 above. In terms of Gregor's (2006) taxonomy of information systems theories, a goal of the research was to generate Type 4 theory which would provide guidance for practicing managers by explaining and predicting relationships between antecedent conditions and OBPO success. Hence, one purpose of the propositions is to enable the strength and direction of causal relationships to be identified and tested.

Section 3.6 explains that the initial set of propositions was tested and modified as a result of an exploratory field study conducted prior to the commencement of the in-depth case studies, while section 3.7 explains the four theoretical lenses that have been applied in developing the

research framework. These lenses were transaction cost economics (TCE), resource-based view of the firm (RBV) combined with organisational learning, and Institutional Theory.

The next Chapter details the research methods that were applied to collect and analyse data, and to address the research questions.

## CHAPTER 4 RESEARCH METHODS AND DATA

### 4.1 INTRODUCTION

This Chapter provides a description and explanation for the research design, methods and data collection techniques adopted in conducting research into Offshore Business Process Outsourcing (OBPO). As has been noted by academic researchers including Rottman and Lacity (2004, 2006), Jensen et al., (2013) and Lacity and Willcocks (2017), many companies are struggling to realise forecast benefits from offshore outsourcing. Hence, there is both a research gap, and a research opportunity, to obtain insights into the factors and management practices that may contribute to more effective outcomes from OBPO.

This research focuses on OBPO by Australian and international companies and considers service providers primarily located in India and the Philippines. For comparison purposes, other OBPO destinations, such as South Africa and Vietnam, have also been the subject of research. Funding support for the research has been received from the Australian Industrial Research Council which resulted in an initial focus on Australian companies. To provide a broader context and basis for comparison, case study research has also been conducted on client companies based in jurisdictions other than Australia, and on service providers located in countries other than India.

Starting points for research design, and for selection of research methods, were the research questions that are discussed in more detail in section 4.2.3 below. The primary research question was:

*“What are the key factors that contribute to the success of offshore business process outsourcing by Australian and international organizations to service providers located in India and the Philippines.”*

The remainder of this Chapter is organised as follows. Section 4.2 analyses the research problem that was being investigated, and how this influenced the overall research design and methods. Section 4.3 describes the research design that was adopted, and how this unfolded through five phases over the course of the overall research project. A detailed flow chart summary of all phases in the research design is included as Appendix 6. Section 4.4 discusses the selection of case studies while section 4.5 describes how data was collected through the longitudinal case studies and analysed. Section 4.6 describes the research framework and propositions that were used to define and validate the critical success factors model that was an objective established in the primary research question. Section 4.7 discusses the ethical dimensions to this research while section 4.8 provides a chapter summary.

## 4.2 SELECTION OF RESEARCH METHOD

The basic research problem was to investigate a phenomenon (OBPO) that was already large in scale and growing rapidly, with as yet little in the way of rigorous published research to guide the researcher or manager. Further, an aim was to investigate the phenomenon from the perspectives of both the client company and service provider, which required data collection in the countries where the client companies and OBPO service providers were located.

Investigating the research problem required that the perspectives and actions of people located in at least two different countries and cultures be understood, and furthermore that these actions be understood within a specific business context.

In broad terms, the research needed to assist in understanding questions such as:

- **What** is happening in OBPO?
- **Why** is it happening (i.e. what are the business drivers)?
- **How** has the OBPO phenomenon evolved?
- What has been the timeframe for this evolution (i.e. **when** did this happen)?

Qualitative research methods are designed to help researchers address these questions, and to understand the decisions and actions of people in the contexts within which the actions have taken place (Myers, 2009). Case study research was selected because the research problem could be approached by obtaining empirical evidence from real people in real organisations, in order to make an original contribution to knowledge of OBPO (Myers, 2009).

Hence a qualitative research design based on multiple case studies was seen as the most appropriate approach to investigating the research problem. The research approach closely matched Yin's (1994, p. 13) definition that a case study is an empirical enquiry that:

- "investigates a contemporary phenomenon (OBPO) within its real-life context, given that the boundaries between OBPO as a phenomenon and the business context within which it occurs are not clearly evident."

### 4.2.1 Justification for this Research Approach

At the commencement of this research project, analysis of existing research literature led to the conclusion that the requirement was for phenomenon-driven research questions (Eisenhardt and Graebner, 2007) that were broadly scoped. As many academic papers have argued (see for example Youngdahl & Ramaswamy, 2008; Hirschheim, Dibbern & Heinzl, 2008; Schmeisser, 2013; Pisani & Ricart, 2016), there was a lack of existing theory and

empirical evidence for explaining the growth of OBPO. In order to make a contribution to practice it was also necessary to understand and articulate the management actions that would increase prospects for success in OBPO. The justification for the research rested on the economic scale of OBPO and the relative scarcity of theory for explaining and predicting how organisations could be successful in conducting OBPO.

The goal of this research project was to begin the construction of theory for explaining and predicting success in managing OBPO. In terms of Gregor's taxonomy of information systems theories, the goal of this research was to generate Type 4 theory (Gregor, 2006), namely to "explain and predict". According to Gregor (2006), to develop Type 4 theory requires that relationships between antecedent conditions and "success" be explained and that propositions be tested with a view to confirming strength of relationships. While one aim of the research was to make recommendations for practice, it was not intended to make prescriptive statements. Hence, in terms of Gregor's (2006) taxonomy, the aim was Type 4 theory (explain and predict) rather than Type 5 theory (the latter being theory for design and action).

The research problem under investigation was also seen to be highly relevant to the needs of business practitioners, and one aspect of the research objectives was to make a practical contribution to improved decision-making regarding OBPO. This led to a focus on identifying critical success factors in the management of OBPO at the level of individual companies. Hence, developing Type 4 theory that could both explain and predict had practical as well as academic significance.

#### **4.2.2 Research Philosophy**

The research philosophy adopted for this project can be described as positivist qualitative research utilising case study methods. A fundamental reason for adopting a positivist research approach was that an overarching goal was to develop theory that could explain aspects of the OBPO phenomenon and identify critical success factors that increased predictive understanding of the phenomenon.

However, there was an initial exploratory phase of the research which lasted for 12 months, and which was to some extent shaped by the interpretive philosophy. During the exploratory phase, one of the goals was to develop an initial understanding of how actors in different countries and cultures constructed their own realities in respect to the OBPO phenomenon. In the exploratory phase, there were no predefined dependent and independent variables. There was a conscious attempt by the researcher to understand the offshore phenomenon through the meanings that actors in different countries and cultures assigned, and to focus on the

complexity of human sense making, both in the host company and the service provider (Klein and Myers, 1999).

During the exploratory phase, the principles for conducting interpretive field research as outlined by Klein and Myers (1999) were applied. The approach to understanding the data that was collected during the exploratory field study was a form of the hermeneutic circle (Klein & Myers, 1999). This enabled shared meanings to be derived from the data gathered through interviews, initial case studies, observations and focus groups primarily conducted *in situ* in host companies and service providers.

In a subsequent phase of the research, the meanings derived from data collected in the exploratory field study were combined with themes being derived from the Literature Review to construct propositions that were tested through in-depth longitudinal case studies. This is discussed further in sections 4.5 and 4.6 below which deal respectively with case study analysis and validation of the critical success factors framework that was a primary objective of this research (see also section 4.2.3 below which discusses research questions).

In overall terms, the research philosophy was positivist with some aspects of a plural approach in the initial exploratory phase and thus was consistent with the principles outlined by Darke, Shanks and Broadbent (1998) and Mingers (2001) for rigorous and pragmatic information systems research.

### **4.2.3 Research Questions**

The review of literature in Chapter Two indicated that there was (and remains) a number of research gaps on the topic of OBPO (Hirschheim, Dibbern & Heinzl, 2008; Lacity et al., 2011a; Schmeisser, 2013; Pisani & Ricart, 2016). While information systems outsourcing has been an area of academic interest for at least two decades, new phenomena have appeared in the outsourcing landscape (Liang et al., 2016; Lacity et al., 2016). As noted in Chapter Two, one such aspect is that IS outsourcing has moved beyond the boundaries of the IS function to include entire information technology supported business processes (referred to in this research as Business Process Outsourcing (BPO)). In addition, BPO has moved beyond national boundaries to service providers located in lower wage countries such as India (Hirschheim, Dibbern & Heinzl, 2008; Carmel & Tija, 2005). The view of Hirschheim et al. (2008) is supported by King and Torkzadeh (2008) who have observed that despite the scale of the phenomenon, there has been inadequate theory development for OBPO. While research on OBPO has been growing in recent years, Mihalache and Mihalache (2016) observe that understanding the key factors influencing decision-making for OBPO remains surprisingly limited.

Hence, an objective for this research was to identify factors that contributed to successful management of OBPO, and to develop an overarching framework integrating these factors in order to provide guidance to practising managers.

The primary research question can be expressed as follows:

*“What are the key factors that contribute to the success of offshore business process outsourcing by Australian and international organizations to service providers located in India and the Philippines?”*

Because the focus of the primary research question was on identifying factors that contributed to successful management of OBPO, the nature of the research problem required that “when”, “how” and “why” questions be explored within the business context of Australian and international organisations that were actually engaged in offshore business process outsourcing (Yin, 1994). Hence, a case study approach was considered to be an appropriate research design.

Secondary research questions were as follows:

- *What is the structure of OBPO and OITO services industry in India, and how is this likely to affect Australian firms?*
- *What is the size and capability of industry, actual and projected growth rates and likely evolution over the next three years?*
- *What is relative value and importance of Australian firms as customers?*
- *What is the value proposition for Australian firms that outsource Business Processes to service providers located in India?*
- *What are the business drivers that cause Australian and international firms to consider OBPO to service providers located in India?*
- *What is the extent of the practice and the degree of success of Australian and international firms?*
- *What is the definition of “success” for Australian and international firms that outsource Business Processes to firms located in India, and how accurately can success be measured?*
- *What are the key risks associated with OBPO to service providers located in India?*

#### **4.2.4 Planning the approach to longitudinal case studies**

The absence of any comprehensive, published OBPO critical success factors theoretical frameworks for Australian and international managers considering or conducting OBPO to destinations such as India and the Philippines made it more important to conduct exploratory field work in order to identify potential propositions that could then be tested empirically. In



this respect, Klein and Myers (1999) point to the emergent nature of theory when exploratory research is being conducted.

The exploratory field work had the objectives of establishing an overall context for theory-building, identifying Australian and international organisations and service providers that were engaged in OBPO, and also understanding the range of business processes and industry sectors that were involved. The introductory field study enabled a database of relevant contacts to be established for in-depth case studies, and enabled case study protocols to be developed, tested and refined.

Theory building from the data collected in the longitudinal case studies was based on an inductive approach, whereby the process began with the detailed observations gathered during the exploratory field study and case studies. These observations were used to progressively develop and refine generalisations and relationships that enabled an OBPO critical success factors framework to be validated.

Eisenhardt (1989) notes that case study research is especially appropriate for new topic areas, and for situations where *“little is known about a phenomenon [and] current perspectives seem inadequate because they have little empirical substantiation”* ...

This seemed an accurate description of the status of theories explaining and predicting successful management of OBPO at the commencement of this research project. Following Eisenhardt's (1989) guidelines, theory-building in this research can be accurately characterised as highly iterative and tightly linked to the data collected through the in-depth case studies described in section 4.4 below.

Generally, the approach adopted in this research during the exploratory field study began with limited theories under consideration and limited propositions to test. Since one of the goals of the research was to build theory, it was decided that the research design needed to allow for competing explanations to be tested against the data being collected and for new explanations to also be developed and tested. Hence a multi case study design was selected.

A longitudinal case study methodology (Yin, 2003) was adopted because of its advantages in addressing “how” and “why” questions, and because of the opportunities that it provides for holistic, in-depth investigation of a phenomenon in which business context has been recognized as critically important (Yin, 2003; Cullen, Seddon & Willcocks, 2008; Jensen et al., 2013). It has been observed (Cullen et al., 2008) that ITO and BPO outcomes are highly context specific and vary over time. Accordingly, a longitudinal case study approach was adopted to enable the evolution of OBPO activities and perceptions of success (or otherwise) to be tracked.

### 4.3 DESCRIPTION OF THE RESEARCH DESIGN

The research design involved five phases which can be summarised in table 4.1 below, and is described below:

**Table 4.1 Summary of five phases in research design**

No.	Research phase description & design	Research purpose & paradigm	Approximate duration
1	Development of research questions and research design	Exploratory, interpretive	9 months
2	Exploratory Field Study	Exploratory, interpretive	12 months
3	In-depth longitudinal case studies	Exploratory & explanatory, positivist	36 months +
4	Theory development	Explanatory, positivist	12 months
5	Refinement of critical success factors framework	Explanatory	12 months

#### 4.3.1 Phase One: Literature review, development of the research questions and research design

Phase one commenced with a review of literature (refer to Chapter Two), together with formulation of research questions, initial design of the research, and development of a preliminary research framework. Chapter Two describes how the Literature Review was conducted, the organisation of major themes arising from the OBPO literature and the identification of research gaps, which were used to frame the research questions. Chapter Three provides details on the research framework that was adopted, including the development of propositions that were tested through a series of longitudinal case studies.

#### 4.3.2 Phase Two: Exploratory Field Study

The exploratory field study involved significant data collection “on the ground” in India, and included initial interviews with a range of executives from “client” companies, OBPO service providers, academics (e.g. Indian Institute of Management, Bangalore), consultants and industry associations such as NASSCOM. During this phase, consideration was also given to selection of sites for in-depth case studies. Open coding of the first set of interviews was conducted to identify potential success factors to be tested via in-depth case studies, and the preliminary research framework and initial set of propositions were both refined.

The rationale for the exploratory field study was to define the questions to be explored and the propositions to be tested in the subsequent in-depth case studies, and also to refine the research framework. In selecting cases for the in-depth case studies, the exploratory field study also enabled the feasibility of the preferred research approach and data collection methodologies to be determined.

For example, would it be possible in a particular case study to obtain access to a reasonable cross-section of staff and management who would be agreeable to participating in interviews? Could the researchers obtain access to company documentation that provided further information and insight into the phenomenon under study? What were the corporate policies of the prospective case study participants on publication of findings arising from the research?

In the case of companies that were listed on various stock exchanges, commercially sensitive information obtained in the course of the research needed to be subject to the relevant legal and regulatory compliance processes regarding disclosure.

For each of the in-depth case studies, the process of obtaining the necessary corporate approvals generally required between 3-6 months elapsed. In one case, a period of 12 months was required.

At the commencement of this research, OBPO by Australian client companies was identified as an emerging and largely unexplored and under-theorised area (Pervan, 2004). Hence, the approach was to maintain flexibility during Phase Two in order to develop an overview of the magnitude and nature of the OBPO phenomenon, and confirm agreement with suitable candidates for in-depth case studies.

In general terms, the interviews with client company executives in the exploratory field study addressed questions such as:

- What business processes are being outsourced to India (or other offshore location)?
- Why are you engaging in OBPO (i.e. identifying business drivers)?
- How successful have you been to date?
- How do you measure and report success of your OBPO activities?
- Can you evaluate your progress to date with OBPO (i.e. what has worked well, where are you looking for improvement)?
- How will OBPO evolve for your organisation over the next three years?

- What have been the key challenges, and how have these been addressed?

The exploratory field study was “naturalistic” in the sense that there was no intervention by the researcher (i.e. no propositions were tested). Data collection consisted of interviews with persons likely to have an overview of current OBPO activity (for example, NASSCOM which is the industry association of OBPO service providers located in India, AUSTRADE, the Western Australian Trade Office in Mumbai, the organisers of an ITO/BPO exhibition which is conducted in Bangalore and academics at the Indian Institute of Management in Bangalore).

Initial contacts were established with executives in Australian and international client companies involved in OBPO and with a number of Indian OBPO service providers. Companies interviewed in the exploratory field study included REPCOL, IORAM, ANZ Bank, British Airways, INFOSYS, and WNS which were subsequently developed as in-depth case studies. In addition, a number of other organisations (both client companies and also service providers) were also contacted and interviews conducted with executives representing these organisations. The Indian Institute of Management in Bangalore (IIMB), Australia India Business Council (AIBC) and Australian and New Zealand Business Association in India (ANZBAI) also provided information that assisted with the exploratory field study stage of the research.

The output from the exploratory field study included:

- Initial statistics on the scale of OBPO by Australian and international firms to India;
- Identification of the range of Business Processes being outsourced by Australian and international firms to India;
- Overview and classification of the OBPO industry structure;
- Database containing contact details of Australian and international companies that were engaged in OBPO to India;
- Updated research framework and propositions for testing in phases three and
- four; and
- Detailed project plan and data collection framework (including interview protocol) for conducting phase three (in-depth case studies).

The introductory field study took approximately 12 months to complete, involved two visits to India and one to UK; each visit being two weeks in duration.

### 4.3.3 Phase Three: In-Depth Case Studies

After identifying the research questions and using the exploratory field study to gather data and take a “snap shot” of OBPO in practice, the author reviewed the extant theory relating to OBPO and OITO to identify any frameworks integrating the factors necessary for OBPO success. The conclusion was that the explanatory power of then current OBPO literature and theory was surprisingly limited (Mihalache & Mihalache, 2016). Literature on international business and OITO was also reviewed, and while this offered some additional insights, it was clear that a number of OBPO research gaps existed (see for example King & Torkzadeh, 2008; Lacity et al., 2011a; Schmeisser, 2013; Mihalache & Mihalache, 2016) for analysis of offshoring research gaps.

The literature on OBPO and offshoring, together with the results from open coding of data collected in the exploratory field study, was used to update the research framework and to build a set of propositions that could be tested through data collected in the in-depth case studies. The research framework is described in Chapter Three.

The case study method allowed in-depth understanding to be developed of a relatively small number of organisations. It facilitated the use of multiple sources of data, including review of archival documents, interviews and follow-up questions together with observation of OBPO in practice.

Selection of case studies is discussed in section 4.7. Initial case study selection criteria included:

- Consistency with theoretical sampling profile (e.g. company size, industry sector, nature of business processes being outsourced, choice of engagement model);
- Access to key Australian and international executives including Chief Information Officer, relevant General Managers and line managers;
- Availability of relevant company documentation;
- Access to executives and managers in the corresponding OBPO service providers (or captive operations) located in India; and
- Time, cost and other resource implications of performing each particular case study.

During Phase Three, data collection was underway via in-depth case studies with interview subjects in India, Vietnam and Philippines (OBPO service providers), and with representatives of client companies in Australia, UK and India. Data collection and analysis during this phase included open coding and axial coding of data collected via interviews, focus groups and review of company documentation. The aim during this phase was to achieve “triangulation” and eventually “saturation” in data collection.

Phase Three lasted for approximately 36 months, thus allowing the longitudinal aspects of the case studies to be developed. In order to collect data, visits were made to Sydney, Melbourne, Bangalore, Gurgaon, Mumbai, Hyderabad and Mysore. Visits for the purpose of data collection involved interviews, observation and review of company documentation. Three visits were made to India to gather data over a 3-year period and, as well as time spent “on the ground in India”, each of these visits also involved three-four weeks for planning, preparation, scheduling, interviewing, summarising analysis and preparing interview protocols. In between visits, substantial communication took place by email and phone with the companies involved and the interview participants.

#### **4.3.4 Phase Four: Development of Critical Success Factors management framework**

Data gathered in the case studies was used to test the propositions identified in the research framework (refer to Chapter Three for details) and this led to the development of a critical success factors model for conducting OBPO, which addressed the primary research question.

Once the critical success factors framework had been developed, it was tested via publication of research articles and book chapters. As a consequence, phase four involved conceptual framework development (i.e. initial stages of inductive theory development) and was to some extent based on the principle described by Klein and Myers (1999) as the “hermeneutic circle”. This involves moving back and forward from the “whole” (i.e. management framework), to the individual parts and their interrelationships. In this research project, the individual parts were represented by the data gathered in the field work and case studies. To develop a critical success factors management framework from the available data required multiple iterations.

The output from Phase Four was developed into conference presentations, journal papers and book chapters setting out and explaining the proposed critical success factors management framework. The peer review process for conference and journal papers proved to be valuable in testing and improving the proposed management framework.

#### **4.3.5 Phase Five: Finalisation of critical success factors management framework and thesis writing**

In Phase Five, there was further refinement of the critical success factors framework based on feedback obtained from peer review processes for conferences, journal papers and book chapters, together with further comparisons with recent published research and literature. In addition, work was also done on development of journal and book chapter publications of other aspects of the original contribution of this research. This thesis was also written in Phase Five, to describe the research framework, methods and results, and was reviewed extensively with the PhD supervisory team.

#### **4.4 SELECTION OF CASES FOR IN-DEPTH LONGITUDINAL CASE STUDIES**

A multi-case research approach was seen to be necessary to enable Type 4 theory (Gregor, 2006) to be developed in order to explain aspects of the OBPO phenomenon and to predict factors that would need to be carefully managed in order to achieve success (Eisenhardt, 1989). The investigation of multiple case studies was seen as essential in order to analyse factors such as choice of offshore engagement model (i.e. captive operation, arms-length contracting or some form of hybrid joint venture between host company and service provider).

Cases were not chosen randomly from a well-defined population; instead selection of cases was primarily based on theoretical sampling considerations with the aim of incorporating certain key variables such as company size, OBPO engagement model, industry segment and different types of OBPO activity which could be observed in the case studies in order to enhance generalisability of research findings. Theoretical sampling was adopted because the exploratory field study together with a review of the literature had identified a number of concepts that appeared to be important in explaining success in OBPO. For example, ANZ Bank is a large Australian company that had adopted a captive model for OBPO, whereas Telstra, another large Australian company, had initially adopted arms-length contracting as its engagement model for OBPO.

REPCOL was a small to medium (SME) Australian company in the financial services industry that had adopted an OBPO captive mode of engagement, but in contrast to ANZ Bank, REPCOL was a much smaller business enterprise. British Airways was selected in order to provide cross-case comparisons with several large Australian companies in the sample selected for in-depth case studies (see also tables 4.2, 4.3 and 4.4 below for more detail on the sample chosen for in-depth case studies).

Selection of case studies participants from the telecommunications, banking and financial services and airline industries was done on the basis that these industries are among the most active participants in OBPO. Hence, case studies selected from these industries may provide greater validity and generalisability of research findings.

The case studies were also considered to provide a reasonable cross-section of typical OBPO activities. Common to all of the OBPO activities in the case studies was that they were both knowledge-intensive and IT-intensive (so fit the definition of “high value” activities as outlined in Contractor et al., 2010). Conducting OBPO involving knowledge-intensive activity required domain knowledge and the exercise of some degree of discretionary business judgement by service provider personnel. Again, the OBPO activities represented in the in-depth case studies were seen to provide a reasonable basis for validity and generalisability of findings.

Case selection corresponding to “theoretical sampling” as proposed by Eisenhardt (1989) and Yin (1994; 2003) was seen as justified on the basis that the objective was to select cases that may extend or replicate emergent theory. Both literal and theoretical replication considerations were applied to case selection. As noted above, to address theoretical replication, cases were selected that involved a sample of both small/medium and large organisations, and also a variety of engagement models with OBPO suppliers. Noting that the strength and persistence of the captive engagement model was an important area of investigation, similar or literal representation was also an important consideration in case selection (Darke et. al., 1998; Dube & Pare, 2003) to ensure that the captive model was studied in a variety of business contexts (e.g. company size, industry sector, etc.). An important consideration in selecting the cases was to strengthen the likelihood that findings from the research could be generalised, thus making a contribution to both theory and practice. Noting that a key objective of the research was theory building, Eisenhardt’s (1989) proposal that between four and ten cases are desirable for theory building using case study research methods was a significant consideration.

The primary focus of the research project was on the OBPO practices of Australian companies, although it was decided to include at least one case study conducted with a company headquartered in Europe (i.e. British Airways) to enable richer cross-case comparisons. It was decided on pragmatic grounds that the scope of the in-depth case studies would be limited primarily to activities where the OBPO services were supplied by personnel located permanently in India. Opportunities were also taken to gather data on OBPO by Australian firms to Vietnam, Philippines and South Africa, but this was not done at the same depth as the case studies of Indian service providers.



Data gathered in the exploratory field study was used to make choices regarding the in-depth case studies. Pragmatic considerations also entered into the selection of cases, with access to a broad cross-section of senior, middle management and front-line staff being a major consideration. Since a key objective was also to obtain the OBPO service provider's perspective as well as that of the client or host company, being able to engage with and obtain the cooperation of the OBPO service provider was also a significant factor in case selection. As well as the five client case studies listed in table 4.2 below, three OBPO service provider cases were also conducted, these being of WNS (service provider to British Airways) Accenture and INFOSYS (the latter both being service providers to Telstra and ANZ Bank).

A final case selection factor was a recognition that the demands of longitudinal case studies are intense in terms of time and resources and hence the number of cases (five clients and three service providers) was considered to be the maximum that could be covered in a research project involving relatively few researchers.

A summary of the in-depth client case studies is presented in table 4.2 below:

**Table 4.2 Summary of Client Cases Selected for In-Depth Research**

Company	Description	Industry Sector	OBPO Supplier(s)	Nature of BPO activities
Telstra	Regional multinational	Telecommunications	Accenture INFOSYS, Teleperformance Teletech	Technical support, billing enquiries, outbound sales, service activation, service assurance
ANZ	Regional multinational	Banking	Integrated captive	Accounts payable, mortgage processing, software support
British Airways	Global multinational	Airline	Captive initially, WNS	Passenger revenue accounting, Frequent Flyer Services
IORAM	Australian Private	Financial asset management	Captive centre	Equities research
REPCOL	Australian Private	Financial services	Captive centre	Debt collection

Carmel and Agarwal's 4 stages of offshore maturity was applied to segment the sample according to the degree of experience that each of the client companies had with OBPO, as indicated in table 4.3 below:

**Table 4.3 Stages of Offshore Maturity (Client Companies)**

Offshore Maturity Status	Companies
Early in the cycle of OBPO	REPCOL, IORAM
Becoming more engaged in OBPO	Telstra
Mature offshore outsourcer	British Airways, ANZ Bank

During the exploratory field study, the process of open coding of data collected from initial interviews indicated that selection of OBPO engagement model was a critical contingency. "Selection of engagement model" refers to the management decision by the client company as to whether to (for example) establish a wholly-owned subsidiary (also referred to as a captive operation) in an offshore location, or to engage an offshore service provider through an arms-length contract. Some researchers (Hutzschenreuter et al., 2011a) utilise the terms "internal governance mode" to refer to a captive operation and "external governance mode" to refer to arms-length contracts.

As indicated in table 4.4 below, the sample of five client company case studies provided sufficient variation in choice of engagement model to enable cross-case comparisons to provide insight into this concept.

**Table 4.4 Selection of Offshore Engagement Model**

Company	OBPO Engagement Models
IORAM	Captive
REPCOL	Captive (predominant), with some arms-length contracting
British Airways	Captive for OBPO, later transition to arms-length contracting with its former captive operation which had been spun off as an independent entity. Arms-length contracting for IT outsourcing.
Telstra	Arms-length contracting with multiple OBPO service providers, followed by development of a hybrid captive.
ANZ Bank	Integrated captive, and some use of arms-length contracting

#### **4.5 CASE STUDY DATA COLLECTION AND ANALYSIS**

The overall data set utilised in the research was gathered through interviews conducted over a period of almost five years (2006-2010) with staff and senior management of five client firms and seven service providers (three of which were the subject of in-depth case studies). Interview subjects were located across 8 cities in India, Australia and the United Kingdom. Data collection has involved approximately 400 hours of interviews utilising a semi-structured interview format.

A detailed interview protocol was developed which contained a mix of specific questions derived from success factors identified in the Literature Review and the research framework and propositions described in Chapter Three. The questions in the interview protocol were aimed at testing existing theory about OBPO together with open-ended questions to explore new knowledge. The protocol was provided beforehand to interviewees. Further data was collected via focus groups and participant observation of daily staff debriefings. Most of the interviews were recorded and transcribed and transcripts were returned to interviewees for correction and/or confirmation. Some of the interviews were not recorded (usually because they occurred spontaneously and at short notice), and focus groups were not recorded due to practical difficulties associated with the recording device not being able to handle larger groups involving multiple speakers and participants. Preliminary analysis was to synthesize data gathered through interviews (and other documentation) into descriptive papers about the organization, and feed these papers back to interviewees for further correction and additional information.

Interviews were conducted with senior executives, senior operational management and development staff. The use of a semi-structured interview format enabled interviewees to expand on their responses to open-ended questions and to provide additional information. Meetings and interviews with Indian service provider companies were held in Bangalore, Mumbai, Gurgaon and Hyderabad, and also in Melbourne, Australia. As noted above, this research includes both captive operations and also business models based on various forms of “arms-length” contracts.

**Table 4.5 Summary of Case Study Data Collection**

Companies selected for in-depth case studies	<ul style="list-style-type: none"> <li>• Companies with a range of experience in OBPO, including several with significant experience and maturity in OBPO</li> <li>• Companies where access to staff and management was available for an extended period of time, thus enabling longitudinal case studies</li> <li>• Range of industries represented, thus enabling cross-case comparisons</li> </ul>
Interview subjects	<ul style="list-style-type: none"> <li>• Senior managers involved in OBPO strategy and decision-making</li> <li>• Individuals managing various offshore business processes and accountable for achieving business outcomes</li> <li>• Front-line staff and subject matter experts actually executing business processes on a daily basis</li> </ul>
Data collection methods	<ul style="list-style-type: none"> <li>• Interviews and focus groups</li> <li>• Observation</li> <li>• Internal company documentation (e.g. monthly reports, metrics)</li> <li>• External company information (annual reports, web sites, media)</li> <li>• Published academic research papers (where available)</li> </ul>
Structure of Interviews	<ul style="list-style-type: none"> <li>• Conducted utilising an interview protocol distributed beforehand to participants</li> <li>• Interviews (mainly) were recorded, then transcribed, written up into a structured narrative and then coded</li> <li>• Structured narrative provided to interview subject who was asked to confirm accuracy or make corrections</li> <li>• 60 to 120 minutes duration</li> </ul>
Additional data collection methods	<ul style="list-style-type: none"> <li>• Observation of activities in OBPO service provider offices</li> <li>• Interviews with managers in other OBPO participants</li> <li>• Industry publications and reports</li> <li>• Interviews with industry associations (e.g. NASSCOM)</li> <li>• Interviews with industry consultants</li> <li>• Participation in trade conferences and exhibitions</li> </ul>

Selection of interview subjects was a collaborative process with the companies that had been selected and had agreed to provide access for in-depth case studies. Because of a strong focus on understanding the business drivers for OBPO, and to determine the extent to which success or otherwise had been achieved, initial interviews were generally conducted with senior executives in both the client companies and their OBPO service providers.

Essentially, selection of interview subject was based on the concept of a *key informant* methodology. Interviewees were classified as key informants if they were able to provide in-

depth understanding and/or deep insights into the OBPO case studies, either because of their senior management role or their specialist knowledge (e.g. because they were a lead for either the client or service provider in the OBPO case that was being studied).

Sometimes questions that were raised in interviews with senior executives resulted in only a partial or incomplete response (due to limitations in the senior executive's knowledge of the detail of a particular OBPO matter). In these circumstances, it was common to have the senior executive nominate other senior managers (with more detailed knowledge of the OBPO issue) for follow up interviews. There were also occasions when managers in either the client company or the corresponding service provider heard about the research that was underway and volunteered to be an interview subject.

The permission of senior executives and managers was also sought (and invariably given) for interviews with mid-level supervisors and with front line staff actually performing OBPO activities.

All interviews were conducted in English. This presented few problems because English is one of the dominant languages used in OBPO, but obviously introduces a potential source of bias as it is not a first language for many of the service provider personnel interviewed for this research.

#### **4.5.1 Pre-planned and Emergent Interview Questions**

Some refinement and focusing of the Research Framework (Chapter Three) occurred after the exploratory field study. Interviews during the exploratory field study were conducted using a combination of pre-planned (scripted) questions and emergent questions. The latter provided some of the most valuable insights obtained in this research

For example, in an early interview conducted in Bangalore with the executive in charge of ANZ's captive OTSS operation, a series of pre-planned questions on managing cultural differences between ANZ's Melbourne head office and its Bangalore operation were submitted.

After answering these pre-planned (scripted) questions, the executive who was the interview subject observed that these scripted questions, although interesting and relevant, did not really address several of the fundamental challenges that he had faced in managing cultural differences nor did they capture fully the approach that had been adopted under his leadership. This observation enabled a series of emergent questions to be asked which resulted in significant insights into the process and challenges of managing cultural differences in OBPO, and of the overall OBPO strategy being adopted by ANZ Bank.

For the in-depth case studies a formal interview protocol was used, with pre-planned questions tailored for the specific business context within which interviews were being conducted.

#### **4.5.2 Contextual Observations**

As well as conducting semi-structured interviews as described above, the researcher also aimed (especially during the exploratory field study) to capture the context of the interviews by seeking to record observations about the companies and buildings in which operations were occurring, and the behaviour of management and the workforce. On a number of occasions, the researcher simply sat at a cubicle in the office locations where outsourced business processes were being performed or joined front-line staff for a meal in the staff cafeteria.

Contextual observations were initially captured by being handwritten into a research notebook. Later, the researcher produced typed summaries of some of the more significant contextual observations. Frequently, the typed contextual summaries contained a combination of observations and insights extracted from a review of company documents (e.g. work instructions to staff, power point training presentations, annual reports, etc.).

Inevitably, selection bias will have occurred at the point at which observations were recorded and also later when research notes were summarised.

Refer to Appendix Nine for a sample of contextual research notes collected in 2006 at the Bangalore facilities of REPCOL and INFOSYS.

#### **4.5.3 Focus Groups**

A number of focus groups were conducted in service provider sites in Gurgaon and Bangalore. The focus groups were arranged at the suggestion of senior managers who felt that entry-level professional staff (especially female staff) would find it difficult to be frank with the researcher in one-to-one interviews. The concern was expressed that junior and entry-level staff would respond to interview questions by providing the answers that they felt that the interviewer wanted to hear, rather than responding in a spontaneous manner.

Focus groups were typically conducted in groups of 10-14 staff, who volunteered to attend, for periods of up to 90 minutes. Usually a member of the service provider management team was also in attendance. Questions were similar to those asked in one-to-one interviews. Focus group discussions were lively and insightful and all questions appeared to be answered frankly. The researcher actually observed few differences in the responses provided by junior and entry-level staff in one-to-one interviews, as compared to those given in the focus groups, but conducting the latter nevertheless contributed to a richer data set.

#### 4.5.4 Triangulation

Triangulation refers to the process of observing a phenomenon from different angles or viewpoints in order to better understand its observable reality. Neuman (2006) suggests that in qualitative research there should ideally be four types of triangulation:

- Measures
- Observers
- Theory
- Method

Triangulation was a major objective of data collection and analysis methods applied in the in-depth case studies. Triangulation of measures, where possible, was adopted for the major concepts (i.e. variables) and their interrelationships.

Triangulation of observers can refer to having multiple interviewers and observers of the phenomenon under study (Neuman, 2006). To a limited extent, the data used in this research was collected by multiple observers. For some interviews conducted in the exploratory field study and in-depth case studies, both the author and a member of the supervisory team were present and had the opportunity to ask questions and record observations. Another PhD candidate was also involved in gathering data on offshore business process outsourcing and was involved in data collection in one of the case studies utilised in this research.

Triangulation of theory was also used in analysis of the data. The author and research team discussed and applied multiple theoretical lenses (i.e. perspectives) when planning the research framework that is described in Chapter Three, and when interpreting the data collected through the case studies. Prominent among the theoretical lenses applied were transaction cost economics (Williamson, 1979; 1985), institutions theory (DiMaggio & Powell, 1983; Suchman, 1995; Scott, 1995; 2005), resource based view of the firm (Barney, 1991; 1999) and relationship exchange theory (Lee & Kim, 1999). Moreover, in developing the research framework, extant literature from both the International Business discipline (Mihalache & Michalache, 2016) and the offshore information systems disciplines (Lacity et al., 2011a; Liang et al., 2016) were combined.

Triangulation of method occurred to a limited extent. The in-depth case studies were conducted using positivist qualitative research methods. The exploratory field study adopted an approach that was based on Klein and Myers (1999) principles for conducting interpretive field studies

#### **4.5.5 Coding and Analysis of Data from Case Studies**

##### **(i) Open Coding**

Coding and analysis of the data being collected commenced during the exploratory field study. This initial coding corresponded closely to that described by Neuman (2006) as Open Coding. The aim was to conduct Open Coding as quickly as possible after the data had been collected and written up as a structured narrative as described in section 4.5.

The coding of the interview notes began with *Open Coding* drawing upon the research framework described in Chapter Three, and in particular with the twelve Critical Success Factors and the 35 propositions derived through the research framework.

The first pass through the interview notes was designed to identify the extent to which interview content provided support for the relevant propositions, which of the critical success factors had arisen in the interview, and initial views on the strength and direction of any interrelationships that were suggested by the interview notes. This could be described as “open coding”, although undoubtedly it was influenced by the research framework and propositions which had in turn shaped the case study protocol. A key outcome from the first pass (“open coding”) through the interview notes and research observations was to link passages in the interview content with critical success factors and interrelationships.

Following Open Coding there were discussion between the researcher, members of the supervisory team and other colleagues of the initial results of open coding, and some revisions were made to the open coding output. In particular, ambiguities were identified in how interview notes could be interpreted, and a number of follow up phone calls and emails were exchanged with some of the interview subjects with a view to resolving or clarifying ambiguities.

Open Coding was done by the author in conjunction with a member of the supervisory team. Subsequent coding (axial and selective) was done as a three-person research team comprised of the author, supervisor and a PhD colleague who was researching a related topic.

##### **(ii) Axial Coding**

Axial Coding commenced six months after the commencement of Phase Two in the overall research design. This corresponded to the availability of initial data from the in-depth case studies. During Axial Coding the focus of analysis was on validating concepts identified in open coding, and in some cases, combining what appeared to be closely related concepts. Identifying interrelationships between concepts was also a major focus of Axial Coding.



The second pass through the interview notes (“*Axial Coding*”) focused on testing the propositions and the critical success factors, and determining the extent to which factors and themes identified in the research framework could be supported as critical success factors (CSF). The second phase also generated considerable discussion among the research team as to the strength of relationships between the CSF and OBPO success, and about interdependencies among the CSF.

It was during the Axial Coding phase that a number of discussions took place about the relative importance of the various engagement models (or governance modes) for OBPO, and the extent to which relational governance factors such as “trust” between OBPO client company and OBPO service providers represented a separate dimension, or could be combined into a more general category such as “transition and governance”.

### **(iii) Selective Coding**

While there was extensive discussions among the research team over a relatively extended period of time (6-12 months), the CSF model for OBPO was stable from the middle stages of axial coding, and changed little through the *Selective Coding*.

The Selective Coding phase coincided with the end of data collection in the longitudinal case studies and the early phases of cross-case analysis. The CSF framework summarised in figure 3.1 in Chapter Three was applied to each of the case studies in order to make comparisons and contrasts and to support the process of generating conclusions that are reported in Chapters Six and Seven.

Selective Coding commenced once the in-depth case studies had been underway for approximately 18 months and a rich data set was emerging. The focus of the analysis began to move towards the development of tentative theoretical frameworks that potentially offered explanatory and predictive insights. By the time selective coding began, major themes had been identified and critical success factors and their interrelationships had been identified, thus allowing testing of propositions to commence. By this stage of the research, there was a strong focus on developing the original contribution of the research project and certain major themes had been identified whereby an original contribution could be made (such as the value proposition of offshore captive centres as a means of conducting OBPO, importance of establishing opaque indifference in certain types of OBPO activities).

The Selective Coding phase also corresponded to commencement of cross-case analysis, and the emergence of potential critical success factors and their interrelationships, as it became possible to compare and contrast data gathered in the various in-depth case studies.

Over a 3-year period, the research team as co-authors continued to refine the interrelationships between the variables that had been identified from the data, and to present their findings to

the academic research community interested in OBPO. Influential conferences at which papers were presented and data discussed included the series of Global Sourcing Workshops that are held annually, and in which the authors contributed in 2008, 2009, 2010, 2012, 2013, 2016 and 2017, and the International Conference on Information Systems held in 2009 (Penter, Pervan & Wreford, 2009a & b).

A text-coding computer software tool (Nvivo) was used to assist with the Open Coding and Axial Coding phases of data analysis. However, the most valuable insights were obtained from discussions within the research team. During the Axial Coding phase the research team collaborated to share views on concepts derived from their reading of the extant literature, and to apply their assumptions regarding theoretical lenses that could be applied to draw insights from the data. The process of Axial and Selective Coding was iterative, with team members meeting regularly to discuss coding and analysis of the data.

Furthermore, there was not a fixed sequence or division between Axial Coding and Selective Coding. In reality, there was a period of some months in which the research team cycled through Axial Coding and Selective Coding. This was particularly influenced by the peer review process as the co-authors had research papers accepted for the various conferences referred to above. Through the peer review process, anonymous reviewers sought further clarifications on concepts, themes and interrelationships that the authors were reporting. To respond to these anonymous reviewers' questions and comments in some instances required the collection of further case study data, and also a further iteration of the coding process.

#### **4.6 DEVELOPING AND VALIDATING RESEARCH FRAMEWORK AND PROPOSITIONS**

As noted by Gregor (2006), to develop an IS theory that explains and predicts requires the identification of concepts and their linkage in a framework that defines relationships between concepts together with propositions regarding the level of influence (e.g. strength and direction) of these interrelationships. Accordingly, for this research it was necessary to develop a research framework of concepts (aka critical success factors) and related propositions that could be tested as a result of data gathered in the in-depth case studies. The research framework is documented in Chapter Three, and was developed through a series of iterations, the first of which was prepared in the latter stages of the exploratory field study (see section 4.3.1 above).

As is noted above, an initial Literature Review identified a number of themes that appeared to be important in successful OBPO and these themes were tested and refined during the initial exploratory field study of 12 months duration. In the latter stages of the exploratory field

study, a research framework was prepared with a view to enabling data to be collected on emerging issues and previously identified research gaps connected with OBPO. The initial research framework was developed on the basis of recommendations from Dibbern et al., (2004) that emerging issues in OBPO should be researched “utilizing what has already been accomplished in the field of IS outsourcing”. Subsequently, OBPO research gaps and insights obtained from literature published in the International Business discipline (Schmeisser, 2013; Mihalache & Mihalache, 2016) were also incorporated into the research framework which was developed through multiple refinements and iterations. The research framework enabled a set of propositions to be derived that could be tested through data gathered from in-depth case studies that are summarised in table 4.2 above in section 4.4.

The in-depth case studies were conducted using a research protocol that focused on 12 key factors and 35 propositions that were considered likely to be influential in design of OBPO strategy and identification of critical success factors. The research framework that was derived for the in-depth case studies is described in more detail in Chapter Three.

In hindsight, this approach proved to be sound and is validated by Lacity et al., (2011a) and Liang et al., (2016) where it is noted that there are strong similarities between the OITO and OBPO phenomena. Further, a number of the issues identified by Lacity et al., (2011a) as current OBPO research gaps are those that have been addressed in this research, notably outsourcing of knowledge-intensive activities, captive centres, and making a contribution that can inform practitioner decision-making.

#### **4.7 ETHICAL DIMENSIONS TO THE RESEARCH**

Prior to commencing the exploratory field study, ethics approval for the research was sought and obtained through an established formal process conducted within the Curtin University School of Information Systems (Curtin University IS\_06\_06).

Key ethical considerations included obtaining informed consent of all participants in the research, maintaining privacy, anonymity and confidentiality where necessary and appropriate, and generally acknowledging and disclosing the funding source for the research (i.e. Curtin University and the Australian Research Council).

An aim of the research was to address a research topic in OBPO that had both practical and academic significance and relevance. That objective strongly influenced the selection of case studies, and also the need to interview some senior executives and decision-makers in the participating organisations. A key early dilemma was the extent to which it was appropriate that the companies participating in the case studies and some of their senior executives be

identified. This dilemma is relatively common in Information Systems case study research, and is not easily resolved when case studies involve well known organisations.

An initial consideration was to use pseudonyms for the organisations participating in the case studies (for example “Major Telco”, “Global Airline”, etc.). However, during the exploratory field study, several interview subjects (senior executives) suggested that the pseudonyms were actually of little use in preserving anonymity, and that both themselves and their companies had placed presentations and documents on the public record that were relevant to the research that was about to commence.

For example, a former CEO of British Airways who was an interview subject for this research was a well-known and highly public figure, who had been interviewed by the media on the subjects of ITO and OBPO, and had made speeches and presentations on the topic including to UK Parliamentary Committees. Similarly, senior executives in ANZ Bank had given presentations and interviews on their company’s OBPO activities that were also on the public record and had been widely reported in public media sources.

Accordingly, it was decided that approval would be requested so that the companies that were the subject of case studies could be identified and, in a limited number of cases, so would some of the senior executives who were interviewed. More generally, however, interview participants were not identified except when they gave permission to do so (usually, this was because the interview participant had already given presentations or interviews in public media on topics directly relevant to OBPO).

Adopting the approach that the companies participating in the case studies could be identified had advantages but also presented its own set of challenges. On balance, a key advantage was that obtaining access to interview subjects and to internal company documentation was made easier since it was clear to all concerned what information could be used for publication by the researcher, and also provided clarity to interview subjects on what could be disclosed.

Since a number of the case study interview participants were subject to rigorous regulatory and disclosure regimes, there was a requirement for the researcher and interview subjects to be very careful in handling any matters that might fall into the category of disclosure of “market sensitive” information. In a limited number of cases, this resulted in some information being embargoed for use or publication until after the information had been fully disclosed via company reports.

Since the topic of the research was OBPO, many of the activities that were underway did involve interaction by service providers with end customers. All service providers in the case studies demonstrated commendable care and security regarding non-disclosure of end customer details and maintenance of privacy.

In a limited number of cases, service providers offered the author the opportunity to listen in to calls or transactions involving end customers. This was done in circumstances where the end customer consented to the call or transaction being monitored for training or coaching purposes. In these limited number of cases where the offer was accepted by the author, there was, and remains, an obligation to maintain confidentiality and privacy of end customers' circumstances.

The vast majority of interview participants received a letter beforehand (usually sent via email) explaining the basis for the research. An interview protocol was provided to participants prior to the interview. Following interviews, an interview summary was provided to each participant for review and approval.

#### **4.8 CHAPTER SUMMARY**

This chapter provides details of the methods used in this research and the reasons why they were selected. At the commencement of the research, it became clear that there was limited published academic research on offshore business process outsourcing. Support for this view can be found in Dibbern, Goles, Hirschheim and Jayatilaka, 2004; Kedia and Lahiri, 2007; Payhe, 2007; Hirschheim, Dibbern, and Heinzl, 2008; Schmeisser, 2013; Pisano and Ricart, 2016 and Gerbl et al., 2016. Accordingly, the development of a framework to guide management decision-making required, at least initially, an open-ended exploratory approach (Eisenhardt, 1989). Hence, the research design commenced with an exploratory field study and a set of research questions from which a research framework and set of testable propositions were both subsequently derived. With a view to making a contribution to both practice and theory, the research questions focused on the "how to" aspects (or critical success factors) of managing offshore business processing outsourcing for which a multi-case, longitudinal research approach was considered suitable.

A primary objective of the research has been the development of a framework to guide management decision-making by Australian and global companies conducting OBPO to service providers located in India, and to other destinations in the Asian region. The management framework has been developed and validated through the course of this research and is described in detail in Chapter Six.

Noting that much outsourcing research has been conducted primarily from the perspective of the company doing the outsourcing (Levina & Ross, 2003), this research endeavours to integrate the perspective of both outsourcer (i.e. "client company") and its OBPO service providers. To achieve this objective of integrating dual perspectives, significant on-the-ground data collection has taken place in India where service providers have been studied

through longitudinal, in-depth case studies. The unit of analysis for this research was at the level of individual companies and organisations, and their commercial relationship in delivering OBPO (whether captive or arms-length contract). This meant that managers who were interviewed as part of the case studies were often be located in different geographies and also brought different cultural perspectives.

The methodology used in this research project involved an initial exploratory field study, followed by in-depth case studies of Australian and global firms engaged in OBPO and their Indian service providers. The study was divided into five distinct phases primarily adopting the positivist case study research paradigm, although the interpretivist paradigm was also adopted in the exploratory field study.

As has been noted by a number of authors (see for example Darke et al., 1998; Mingers, 2001 and Dube & Pare, 2003), case study research can be applied within both the positivist and interpretivist philosophical traditions. Adopting the recommendations of Mingers (2001), this research has sought to use both interpretivist and positivist paradigms to obtain greater knowledge and insight into the OBPO phenomenon. Initial contacts with potential case study participants found that, even within the same company, different stakeholders had different views on the degree of success of OBPO. These stakeholders held strong and often diverse opinions, and did not uniformly share a clear, consistent and objective “reality”.

## CHAPTER 5 DESCRIPTION AND ANALYSIS OF CASES

### 5.1 OVERVIEW

The purpose of this Chapter is to provide a description and analysis of each of the longitudinal case studies that formed part of this research. While this chapter focuses on a summary and analysis of each **individual** case, Chapter Six provides **cross-case comparisons** and analysis. This Chapter is divided into the following sections. Firstly, the approach adopted to conducting the case studies and the unit of analysis is outlined. This is followed by a discussion of case selection and analysis, after which the individual case studies are introduced. There are 5 longitudinal, in-depth client company case studies and 3 similar case studies of OBPO suppliers. Tables 5.1 and 5.2 below provide a summary of the client and OBPO suppliers respectively.

From section 5.4 below through to section 5.8 the client company cases are presented and analysed, followed by the OBPO supplier cases in section 5.9 through to 5.11. For each case, a summary is provided followed by a structured analysis of OBPO critical success factors based on figure 3.1 and table 3.3 from Chapter Three (Research Framework). The client company cases and one of the OBPO supplier cases have previously been reported in Penter et al., (2008); Penter et al., (2009); Penter and Pervan (2009); Wreford et al., (2011) and Penter et al., (2013).

### 5.2 THE CASE APPROACH AND LEVEL OF ANALYSIS

The research approach to the longitudinal case studies is qualitative and conducted in the positivist paradigm. The case studies were conducted according to the general principles outlined by Eisenhardt (1989) and Yin (2003), as discussed in more detail in Chapter Four (Research Methods).

As indicated in table 5.1 below, there were five client companies involved in the case studies. Each case study includes a client company and its OBPO supplier partner. In some cases, the client companies have multiple OBPO suppliers, and while supplier relationships were examined through the client case studies, three of their OBPO suppliers were also selected for an in-depth and longitudinal case study. Therefore, the case descriptions below include eight separate case studies, five client companies and three OBPO suppliers.

At the heart of the case studies is the interaction and exchange of services and information between the client companies and their offshore service providers, and the business outcomes and organisational learning that occurs over time in both partners in that dyadic relationship.

Four of the client companies were headquartered in Australia and one in the United Kingdom. Hence, the client companies are firmly located in the Anglosphere. Their OBPO suppliers are predominantly located in India, with two of the client companies having diversified their OBPO supplier portfolios to include the Philippines and China.

The primary unit of analysis in the case studies is the company, including the respective senior management teams, and the relationship between the client company and its main OBPO supplier (which in virtually all the case studies includes a captive centre). The dependent variable in the case study analysis is successful achievement of the OBPO objectives for which the OBPO success model described in figure 3.2 in Chapter Three was applied.

As noted by Yin (2003), the ability to trace changes over time is a major strength of case studies. Conducted over a four-year period with first interviews commencing in the middle of 2006, these case studies spanning approximately 4 years uncovered very significant changes in OBPO strategies and business objectives, with consequent changes in OBPO relationships and personnel.

### **5.3 CASE SELECTION AND THEORY BUILDING**

As noted in Chapter Three (Research Framework), these case studies were conducted with the objective of developing and validating a Critical Success Factors model for conducting successful OBPO. Therefore, the strategy for selection of cases (which is described in more detail in Chapter Four Research Methods) was to provide a foundation for theory-building from the findings and to provide a basis on which the findings could be generalised.

A shared characteristic of all of the cases is that the activities that are subject to OBPO involve knowledge-intensive services. There is a large amount of tacit knowledge involved that must be transferred initially to the OBPO supplier, and subsequently, exchanged via a two-way process between the client and OBPO supplier, and a high degree of reciprocal interdependence between various sub-tasks that must be coordinated to achieve successful business outcomes. Table 5.1 below summarises the types of OBPO activities that were involved in each of the five client company cases, while table 5.2 summarises the three OBPO supplier cases.

In order to analyse each of the client company cases, an analytical framework was developed based on figure 3.1 from Chapter Three (Research Framework). The framework used for client company analysis consisted of three broad areas of focus:

- iv. What was each client company's motivation (or definition of success) for conducting OBPO?



- v. What choices did client company senior management make in respect to the critical success factors for conducting OBPO (e.g. choice of location and engagement model, relational governance model, managing cultural differences, knowledge management)?
- vi. What OBPO outcomes were achieved?

Supplier case studies were analysed using a different analytical approach that took into account the suppliers' key value proposition in delivering OBPO, their overall business strategy and the key challenges that they faced.

**Table 5.1 Summary of client cases**

<b>Client company</b>	<b>Description of company and its industry sector (bold)</b>	<b>Nature of OBPO activities</b>	<b>OBPO engagement model</b>	<b>Company headquarters &amp; size during case study (AUD)</b>
REPCOL	Medium enterprise, ASX listed, debt collector, <b>Financial Services</b>	Debt collection	Captive, Bangalore	Perth, \$50m AUD, 700 staff
IORAM	Small private company, equities research and investment, <b>Financial Services</b>	Building & maintaining financial models	Captive Bangalore	Sydney, \$5m AUD, 50 staff
British Airways	Global multinational <b>Airline</b>	Passenger & Cargo revenue accounting, Frequent Flyer services	Captive Gurgaon then arms-length contract with WNS	London, 11.44b GBP (IACG) 42,000 staff
ANZ Bank	Regional multinational, ASX-listed, <b>Banking &amp; financial services</b>	Accounts payable, finance & accounting, mortgage processing, software support	Captive Bangalore, and arms-length contracts with suppliers in China and the Philippines	Melbourne, \$82.5b AUD, 48,000 staff
Telstra	Regional multinational, ASX-listed <b>Telecommunications</b>	Customer service enquiries (Help Desk), service activation & assurance	Arms-length contracts with Accenture, INFOSYS & others, then captive in Manila & Cebu	Melbourne, \$52b AUD, 38,000 staff

**Table 5.2 Summary of OBPO supplier cases**

<b>OBPO supplier company</b>	<b>Description of business strategy</b>	<b>Links to client case studies</b>	<b>Global presence (2016) by no. of countries</b>	<b>Corporate HQ, market cap (USD) &amp; staff (2016)</b>
INFOSYS	Global multinational involved in OITO and OBPO	Telstra  ANZ	50 countries	Bangalore, \$34.3b  200,000 staff
Accenture	Global multinational involved in ITO and BPO	Telstra	200 cities, 55 countries	Dublin, \$82.5b  400,000 staff
WNS	“Pure play” global OBPO operator	British Airways	13 countries	Mumbai, \$1.63b  33,000 staff

## **5.4 THE CASE OF THE DEBT COLLECTOR (REPCOL)**

### **5.4.1 REPCOL company overview**

<sup>16</sup>REPCOL was formed in 1973 as a privately owned company providing various debt collection and management services. By 1996 it had grown to the point where it was turning over approximately \$4 million per annum, but growth potential of the business was limited because directors’ guarantees were required in order to secure debt and working capital. In 2001, the owners of REPCOL received an unsolicited takeover offer that valued the firm at \$3 million. Formal advice was sought on the offer to purchase the business, and REPCOL was advised that it needed either to change corporate structure and raise expansion capital, or exit the Australian debt services industry because it lacked adequate scale.

REPCOL took the decision to convert to a public company structure and list on the Australian Stock Exchange (ASX). This goal of ASX listing was achieved in May 2002. At the time of the Initial Public Offer, REPCOL had a market capitalization of about \$5 million (all dollar amounts are Australian with current A\$1.00 = US\$0.75 approximately) and about 50 people in its main office in Perth with small representative offices in Sydney and Melbourne. At the time Australia was in its tenth year of continuous economic growth, and the business strategy

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<sup>16</sup> Penter, K., Pervan, G., & Wreford, J. (2007) *Case studies in REPCOL and IORAM: Australian companies that are creating shareholder value through globally distributed work*, p8.

was based on fairly rapid expansion of the existing business model, with additional staff to be hired for the Australian operations.

Experience after listing demonstrated that there were a number of opportunities to expand REPCOL's business (for example, by purchasing debt from providers of credit), but REPCOL began to experience difficulty in finding and retaining enough qualified and experienced staff in Australia.

#### **5.4.2 REPCOL's OBPO strategy to India**

The business drivers for REPCOL's OBPO strategy were to address the skill shortages facing the Australian business, to continue the process of rapid business growth and to lower transaction costs associated with performing certain high-volume business processes.

REPCOL's initial approach was to conduct research into the capabilities of OBPO suppliers in India. GE Capital was a major client of REPCOL, and had a strong OBPO presence in India including a captive operation. As a consequence, the Managing Director of REPCOL had become aware of the OITO and OBPO capabilities that were available in India. In January 2003, a visit was arranged to Chennai, Hyderabad and Bangalore, for a team from REPCOL to look at Technology Parks, Call Centre solutions and BPO service providers. Having satisfied themselves that the capabilities and infrastructure in India were adequate to meet REPCOL's requirements, within a month the team recommended to the REPCOL Board of Directors that an OBPO presence be established in Bangalore. The Board approved an initial investment of \$500,000 AUD to establish an OBPO office in Bangalore. The operation in Bangalore was to be wholly-owned by REPCOL".

#### **5.4.3 Selection of OBPO engagement model**

The OBPO captive centre option was adopted by REPCOL for several related reasons:

- a. the non-scripted nature of REPCOL's main debt collection processes and the need for transfer of significant tacit knowledge;
- b. REPCOL operated within a rigorous regulatory regime administered by the Australian Prudential Regulation Authority (APRA); and
- c. REPCOL's Board of Directors had some concerns about risks associated with potential corruption that could undermine regulatory compliance, so a directly owned and controlled subsidiary was seen as a form of risk mitigation.

To commence OBPO operation, "REPCOL relocated a senior manager to Bangalore to commission the facility which was operational within four months. After some initial teething

problems, REPCOL's Bangalore facility was expanded to 180 staff and was generating \$1 million AUD per month in revenue within 18 months.

By 2004, REPCOL's OBPO captive operation consisted of 180 local staff in one call centre in Bangalore (which was chosen because it was growing with BPO and ITO, had a pool of well-qualified labor, and had an international airport). REPCOL had their own captive centre in full operation and now needed a General Manager to lead the Bangalore operation. REPCOL's MD had a close working relationship with a Singaporean citizen of Indian ethnic origin, whose family came from the Bangalore region, whom he appointed as General Manager (GM) of the captive centre. The newly appointed GM was able to understand and handle local customs, regulations, national government requirements, and also had a network of local contacts.

By 2007, REPCOL had expanded their Bangalore captive operation to their own building and had over 500 staff in Bangalore with 70-80 staff in Australia. At this time, REPCOL's business included collecting on their own consumer debt 'assets' plus doing fee-for-service debt collection for other companies. Their debt-collection process included inbound and outbound calls, a team approach to managing individual accounts, and opportunity for promotion for staff in the captive centre as they acquired skill and demonstrated mastery of processes.

It was clear from observation in the REPCOL captive centre that staff adopted a professional, constructive approach to debt collection via collaborative problem solving. Calls were utilizing a VOIP dialing and communication service provided by a major telco and their processes were integrated with various software applications including CRM, searching/tracing database queries, and Whitepages searches. About 70% of REPCOL's Bangalore staff were involved in direct contact with debtors located in Australia.

The REPCOL captive centre operated on two shifts (6.30am to 2.30pm and 2.00pm to 10.00pm), thus providing coverage of Australian and North American business hours. Staff were provided with door-to-door transport to and from work, provided with meals, and were trained in-house. Staff all had degrees (usually Business/Commerce) and some had Masters, about 50% were female, about 50% were Muslim, and they were paid about one-sixth of Australian rates (but good pay by Indian standards)" (Penter & Pervan 2009, p. 556).

#### **5.4.4 REPCOL's definition of success from OBPO**

REPCOL senior management "viewed India as a strategic initiative, not just cost reduction and also providing opportunity for growth into other markets not possible from Australia and with staff numbers not possible in Australia. OBPO to Bangalore was the only way that REPCOL could achieve their business plan objective to increase the scale and scope of its operations because they could not obtain sufficient skilled Australian staff – debt collection

was not seen as a desirable career choice in Australia whereas working for an international company was attractive in India. REPCOL reported greater than 60% labor cost saving for complex, value adding activity conducted in India and, deducting costs associated with establishing in Bangalore and on-going overheads for co-ordination and management, this still generated a 40% cost reduction overall.

Staff in Bangalore were well qualified (e.g. MBAs), highly motivated, and some already had multinational company experience. Most Indian staff had never spoken to Australians before and they had to be taught to handle the relationship with the clients in a very different power relationship to most other call centre operations. Staff turnover was 32.5% for 2006 whereas for other Indian BPO centres it was observed to vary from 60% to 130% while in Australia the rate of attrition was about 25% in comparable work. The MD of REPCOL was observed to exercise a high degree of cultural agility and intelligence, and to lead and encourage this from his senior management team. Nevertheless, the MD observed that managing perceived distance continued to present an ongoing challenge, and that some REPCOL staff in Australia were initially highly skeptical about the prospects for success from the REPCOL's OBPO captive operations. A significant challenge for REPCOL's MD was also attracting and retaining senior managers for the REPCOL captive centre" (Penter & Pervan 2009, p. 556).

The successful OBPO outcomes observed in the case study of REPCOL have provided insights into the strategic success factors for management of OBPO. Data gathered in this case study has shown that OBPO made a substantial contribution to the five-fold increase in REPCOL's reported revenues and profits in the period from 2001 to 2006. Critical success factors included the commitment and leadership demonstrated by senior management at REPCOL who sought transformational business benefits from OBPO while also managing key cultural factors and knowledge transfer from their captive operation to the parent company. REPCOL also demonstrated a capacity for rapid organizational learning and knowledge dissemination in respect to OBPO key success factors.

Applying the framework for CEO behaviour described by Earl and Feeny (2000), the MD of REPCOL in this period demonstrated that he was a "believer" in OBPO. REPCOL's success with OBPO appeared to be based on more than just cost reductions from lower labor costs at their Bangalore captive, and was a result of the OBPO strategy being closely aligned with overall company strategy. The CEO's engagement and leadership of the OBPO initiative was a critical success factor in achieving and maintaining this close alignment.

#### 5.4.5 Summary of research framework applied to REPCOL

##### A. Business Objectives

Motivation to Outsource	Influence on REPCOL decision-making
Cost reduction	Yes to a certain extent, although not as strong as addressing staff and skills shortages in Australia.
Access to scarce skills and resources	Yes - this was a critical motivation.
Focus on core capabilities	Less so, orientation was more towards delivering on REPCOL's growth strategy.
Business Process Improvement	Not initially, but was a benefit that emerged over time as the Bangalore captive centre became well established.
Influence of industry regulator (s)	Yes, very strong influence on choice of captive engagement model.
Scalability	Yes, linked to company growth strategy.
Speed to implement/realise benefits (cycle time reduction)	Yes, strong, linked to growth strategy.

##### B. BPO strategy considerations

Strategy Element	REPCOL choices
Engagement Model	Selection of captive model seen as essential due to Board and senior management emphasis on need to control transfer of tacit knowledge, manage risk, and comply with Australian regulatory regime.
Location	Bangalore selected by REPCOL senior management because of availability of pool of qualified OBPO staff, infrastructure was evaluated as better than other prospective locations in India and ease of access from west coast of Australia.
Relational/Contractual Governance Model	MD provided significant leadership for the establishment of OBPO captive operation and carefully selected and mentored General Managers of the Bangalore captive operation.
Top down or emergent strategy	Top down strategy developed by MD who persuaded Board of Directors, then drove the successful establishment of the captive centre.
Knowledge management	Generally effective due to leadership of the MD and the skills of the management of the

	Bangalore captive centre. Some reluctance by Australian-based staff to engage in knowledge transfer with Bangalore.
Approach to managing cultural differences	Led strongly by the MD with support from management of the Bangalore captive centre. Observed to work very effectively in practice.
Prior outsourcing experience of firm	Limited to the MD. Lack of prior experience by REPCOL's Australian staff was initially an obstacle to more rapid progress and success, but was overcome by leadership.
OBPO strategy changes over time	OBPO strategy was consistent and strongly linked to REPCOL's growth strategy.

### C. BPO business outcomes

<b>Business Objective</b>	<b>REPCOL business outcomes achieved</b>
Cost reduction	Yes, significant cost reductions were delivered.
Access to scarce skills/resources	Yes, this was critical in enabling REPCOL to achieve growth objectives.
Business Process Improvement	Not initially, achieved once Bangalore captive was established and smooth operating rhythm developed.
Scalability	Yes, enabled delivery of REPCOL's growth strategy.
Speed to implement/realise benefits (cycle time reduction)	Generally achieved.
Retained client firm capabilities	Yes, although scale of the Bangalore captive operation rapidly overtook the scale of the Australian operations.
Did success measures change over time?	No, strategic alignment was established from the outset and maintained.

## 5.5 THE CASE OF THE FINANCIAL ASSET MANAGER (IORAM)

### 5.5.1 IORAM company overview

Indian Ocean Rim Asset Management (IORAM), as reported in Penter & Pervan (2009, p. 557) "was an Australian boutique fund manager that developed an OBPO captive centre in

Bangalore to drive a new vision for outperformance<sup>17</sup> through high conviction investment in listed Australian small capitalization stocks. IORAM's strategic motivation for OBPO was to move small cap equity analysis from a 'cottage industry' to an industrial strength business model. In their search for undiscovered value in Australian small caps, IORAM sought to utilise OBPO via their captive centre to develop and update financial models for the relatively large number (approximately 1,600) of Australian Stock Exchange (ASX) listed companies that are to be found outside the ASX 200 (i.e. the largest 200 listed Australian companies).

The principals in IORAM were experienced investment managers with a track record of previous investment and funds management success at companies such as TD Waterhouse, QBE, Westpac, Macquarie Bank and Fat Prophets. Having established IORAM, one of their strategic objectives was to leverage the deep talent pool that they saw to be available in India to supply the equities research 'horsepower' that would allow all stocks outside the ASX 200 to be modelled for the first time. IORAM was seeking to apply process and science to an under-researched company sector, and thereby create and maximize the value of an information advantage".

### **5.5.2 IORAM's OBPO strategy to India**

As reported in Penter and Pervan (2006, p. 2) "IORAM commenced the operation in Bangalore in March 2006 of their OBPO captive centre with the aim of developing a new business as a boutique funds manager that would focus on establishing an Australian Smaller Companies Fund. The principals of IORAM were already familiar with an OBPO model as a result of a previous successful investment that they had made in an Australian small capitalisation stock (*small cap*) that had succeeded in establishing a captive operation in Bangalore.

With an established track record in identifying value by bringing process and science to under researched market sectors, the principals of IORAM viewed OBPO not simply as an opportunity for cost reduction, but primarily as a means to achieve faster reaction times by analysing more companies and more ideas.

They considered that the Australian small cap sector had historically been under-researched, and that Australian equity analysts and investment managers had been time poor with too many companies to track. Inevitably, most equity analysts and their research had focused on the largest Australian Stock Exchange listed companies, and had ignored the small caps at the smaller end of the market. The IORAM OBPO strategy meant that staff based in Australia

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<sup>17</sup> 'Out-performance' is a term used in the Funds Management industry to denote achieving an investment return that is higher than an Index benchmark, such as the ASX 200, which is an Index calculated on the share price movement of the largest 200 companies listed on the Australian Stock Exchange (ASX).



could generate investment ideas, conduct company visits and make investment decisions and no longer be slaves to updating and maintaining their spreadsheet financial models.

IORAM's basic value proposition was that Australian portfolio managers (i.e. investment managers) would be supported by equity analysts based in Bangalore to focus on overlooked market sectors, with a view to finding undiscovered value within the Australian small caps, ultimately leading to better investment performance and hence increased funds under management. IORAM referred to their Bangalore operation as their Equities Research Hub.

The principals of IORAM wished to adopt an OBPO model for three reasons:

- i. labor cost arbitrage calculations for this type of knowledge-intensive OBPO to India had convinced the principals that suitably skilled equity analysts could be recruited in Bangalore for about 25% of the staffing-related costs associated with an Australian analyst;
- ii. a strong preference to free up Australian equity analysts to spend more time visiting the companies in which they were considering an investment, and building a relationship with the management of these companies as they searched for value;
- iii. they had observed Wall Street firms such as Morgan Stanley, Citibank, Fidelity Fund\* and Merrill Lynch outsourcing parts of the equity analysis process to India and creating significant value as a result, and felt that they needed to do the same in order to establish a scalable and repeatable global best practice investment model for IORAM.

\*As part of their due diligence, the principals of IORAM had visited Fidelity Fund's Bangalore operation and observed 1,000 staff engaged in back office processing and equities research in support of global funds management.

With the labour arbitrage calculations, the principals of IORAM reported that the costs of coordinating activities of equity analysts conducting research and modelling from Bangalore must be factored into the cost reduction equation. The Australian principals of IORAM were each spending about 15% of their time in Bangalore driving and developing the OBPO captive operation, and during the recruitment and establishment phase, more than 50% of their time was spent in India. Strong local management, effective use of technology and frequent 'virtual' contact were considered to be key success factors for the principals to remotely manage the Bangalore operation. The principals reported that for activities such as developing and updating financial models, their OBPO captive centre was delivering cost reductions approaching 50% after allowing for the full cost of coordination, which included travel, management time, accommodation and telecommunications. Generally, these costs have not

been onerous for Australian companies conducting OBPO to service providers located in Bangalore. Travel links are excellent, and high-performance broadband telecommunications connections are available at reasonable cost”.

### **5.5.3 IORAM’s definition of success OBPO**

As reported in Penter and Pervan (2009, p. 558), “electronic upload of financial data from annual reports and stock market releases to the Australian Stock Exchange (ASX) provided a base financial model for each company that was being researched. IORAM equity analysts based in Bangalore performed financial analysis of Australian small cap stocks, including the following tasks:

- Creation of financial models in MS Excel to forecast key company metrics, including Price Earnings Ratio, Earnings Per Share, Net Profit After Tax, etc.
- Tailoring of these financial models to provide ready manipulation of key value drivers and ‘what if’ scenario analysis based upon Investment Manager feedback from company visits in Australia.
- Identification of any sustainable and responsible investment (SRI) issues
- Monitoring stocks for updates and changes (e.g. new information, quarterly and half yearly earnings reports) and keeping all models up to date
- Responding to requests for reports and analysis on Australian companies being tracked via a database of models
- Mining (searching) of the models database in order to identify potential value investment opportunities

Equity analysts employed by IORAM in Bangalore generally had an MBA and a first degree in a quantitative discipline (including Engineering, Accounting, Commerce, Science, Biochemistry), and some had post-graduate Finance qualifications (for example, actuarial). Typically, they also had a background as a financial equities analyst for a stock broker, mutual fund or investment bank, and some had experience of the US equities market. Within IORAM’s captive centre, analysts were organized around market sectors such as Oil & Gas, Pharmaceuticals, Financial Services, IT and Engineering. Within IORAM Bangalore, career progression was generally from analyst to senior analysts/team leader (covering multiple sectors), with the ultimate possibility of progressing to portfolio manager and then fund manager”.

IORAM principals also cited an additional success factor not originally foreseen, which was the enthusiasm and optimism of their Bangalore staff, which they felt contributed to motivation and productivity. As noted by one of the principals:

*“Our Indian office is a delight to work in – it’s a 100% cynicism-free workplace – and the power of this environment on productivity and quality should not be under estimated.”*

As reported in Penter and Pervan (2006, p. 5) “while the IORAM principals considered that the relatively deep pool of experienced and qualified equity analysts was the major part of the OBPO model, also important was the availability of reliable and low cost Internet and broadband telecommunications technology that now allows for collaboration, communication and control in ways not previously possible. Experience with OBPO also demonstrated that the activity had the effect of forcing improvements in process design and control, leading to higher quality outcomes. Hence, IORAM adopted the long term objective of transforming small cap equity analysis from a ‘cottage industry’ to an industrial strength process that could be replicated. As part of this transformation, it aimed to increase the number of stocks that could be analysed in detail and to shorten the cycle time associated with successful small cap stock selection and investment. In addition, IORAM sought to increase the frequency with which new ideas were generated, and also aimed to free up senior, experienced investment professionals in Australia to be out visiting companies and talking with management of these companies. The principals believe that better research leads to better investment returns”, noting that:

*“Historically, the Australian small cap sector has been under-researched because analysts are time poor with too many companies to follow up. Experienced Australian analysts become slaves to financial model maintenance rather than being able to get out and investigate smaller companies, talking to management, searching for value.”*

#### **5.5.4 IORAM’s choice of location and OBPO engagement model**

The IORAM principals were of the view that their experience demonstrated that Bangalore offered “significant location advantages over other possible BPO sites in India. Bangalore demonstrated advantages in terms of world class educational institutions, a deep pool of talented and highly motivated staff, and the presence of a cluster of sophisticated and successful BPO firms. IORAM principals felt that these advantages enabled them to quickly establish an effective captive operation in relatively short time frame without having to make major investment commitments. They also found Bangalore to have a number of location

advantages for Australian client companies. Located in southern India, Bangalore is relatively accessible via airline connections with the major Australian cities. It is regarded by Australian managers as a convivial destination for re-location. Bangalore enjoys a temperate climate, is less adversely impacted by the monsoon (which can cause Mumbai to shutdown) and provides a pleasant and productive work environment.

The principals of IORAM took the decision to establish a captive centre after considering a range of factors including the following:

- Direct costs of establishing a captive operation in Bangalore, and possible diseconomies of scale compared to arms-length contracting;
- Cost benefit analysis of ‘owning’ versus ‘renting’ capability through an arms-length contract with an established OBPO service provider;
- Possible loss of control over their transactions, and of the security and confidentiality of their financial models and investment opportunities if handled by an OBPO service provider (who may be engaged by other fund management competitors);
- Implications for IORAM’s brand and reputation in the event of any perceived loss of control or drop in quality (this was considered to be particularly important for a boutique fund manager);
- Value created by IORAM’s proprietary systems (i.e. investment analysis platforms) and processes.

The principals had a strong preference to maintain control over their transactions and security of their key data and intellectual property. The industry and company-specific knowledge gained from the financial models being created, maintained and updated at the Equities Research Hub in Bangalore was regarded as valuable intellectual property to be retained, hence, the captive model was chosen and maintaining low rates of staff attrition was a Key Performance Indicator. With a view to containing staff attrition, IORAM implemented a reward structure that was novel at the time in the OBPO industry, and was aimed at making all Indian staff financial stakeholders in the business” (Penter and Pervan, 2006, p. 6).

#### **5.5.5 Implementation challenges for IORAM’s OBPO strategy**

Challenges for IORAM in implementing their OBPO model “were similar to those facing the broader industry in India. The continuing success of the OBPO industry is likely to result in costs escalating in the Tier One BPO cities in India (which include Mumbai, Bangalore, Chennai, Pune, Delhi (Gurgaon) and Hyderabad). The BPO industry in India also continues to be faced with growth-related infrastructure bottlenecks, high rates of staff turnover (30% per annum being typical), rising salaries and soaring real estate prices in the key locations for

BPO activity. For IORAM, recruitment and retention of skilled quantitative analysts was one of the most significant challenges. There were also cultural issues that had to be managed, including training Bangalore staff to become familiar with the Australian business and investment environment. As noted in section 5.5.4 above, IORAM took steps to address staff turnover risks by offering staff a share in the performance fees generated by its funds. This approach of treating Indian BPO staff as full partners in the success of the firm was relatively new in an industry that is still less than 20 years old” (Penter & Pervan, 2006, p. 5).

### 5.5.6 Summary of research framework applied to IORAM

#### A. Business Objectives

<b>Motivation to Outsource</b>	<b>Influence on IORAM decision-making</b>
Cost reduction	Yes - reducing costs associated with performing investment modelling and analysis was fundamental to the IORAM value proposition.
Access to scarce skills and resources	Yes - this was a critical motivation.
Focus on core capabilities	Yes - wished to free up Australian investment managers to spend more time visiting potential opportunities in Australia and building relationships with management of these small cap companies.
Business Process Improvement	Not initially, but was a strategic intent of the IORAM principals.
Influence of industry regulator (s)	Yes, strong influence on choice of captive engagement model.
Scalability	Yes, linked to company growth strategy
Speed to implement/realise benefits (cycle time reduction)	Yes, strong, linked to growth strategy.

## B. BPO strategy considerations

Strategy Element	IORAM choices
Engagement Model	Selection of captive model seen as essential due to IORAM principals' emphasis on need to control transfer of tacit knowledge, manage risk, and comply with Australian regulatory regime.
Location	Bangalore selected by IORAM principals based on their direct experience with another Australian company in which they had invested which was operating successfully an OBPO captive centre in Bangalore.
Relational/Contractual Governance Model	Principals of IORAM provided "hands on" leadership for establishment of the OBPO captive operation, including personally selecting and mentoring the General Manager and his direct reports in the Bangalore captive operation.
Top down or emergent strategy	Top down strategy developed by the principals who were "hand on" in driving the successful establishment of the captive centre.
Knowledge management	Generally effective due to "hands on" leadership and management of the IORAM principals who maintained a regular presence in Bangalore.
Approach to managing cultural differences	Led strongly by the IORAM principals.
Prior outsourcing experience of firm	Obtained as a result of an investment that IORAM had made in an Australian company that had a successful OBPO captive centre in Bangalore.
OBPO strategy changes over time	OBPO strategy was consistent and strongly linked to IORAM's broader investment and business growth strategy. Was subsequently impacted by Global Financial Crisis (GFC).

## C. BPO business outcomes

Business Objective	IORAM business outcomes achieved
Cost reduction	Yes, significant cost reductions were being delivered
Access to scarce skills/resources	Yes, this was critical in enabling IORAM to achieve growth objectives.

Business Process Improvement	Not initially, achieved once Bangalore captive was established and smooth operating rhythm established.
Scalability	Yes, this was a strong strategic intent for IORAM's Bangalore captive centre.
Speed to implement/realise benefits (cycle time reduction)	Yes, this was also a strong strategic intent for IORAM to speed up the cycle time to identify small cap investment opportunities.
Retained client firm capabilities	Yes, although scale of the Bangalore captive operation rapidly overtook the scale of the Australian operations.
Did success measures change over time?	No, strategic alignment was established from the outset and maintained. Later changed as a result of GFC.

## 5.6 A GLOBAL AIRLINE CASE – BRITISH AIRWAYS SUCCESSFUL OBPO AND OITO TO INDIA

### 5.6.1 British Airways company overview

<sup>18</sup>British Airways (BA) is generally regarded as one of the world's top 10 airlines (measured by scheduled passenger-kilometres flown). Following a merger with Spain's Iberia, British Airways shares have traded on the London Stock Exchange as International Consolidated Airlines Group which had a market capitalization (April 2017) of 12.33 billion Great Britain Pounds (GBP). Reported operating profit in the year ending 31 December 2016 was 1.473 billion GBP on turnover of 11.44 billion GBP.

Over the past decade, BA has demonstrated the ability to re-invent itself when faced with difficult business conditions, notably those that it faced at the beginning of the 2000 decade. Despite the impact of the 11 September 2001 terrorist attacks on New York and Washington and exposure to rising oil prices, by 2005 British Airways was the world's most profitable airline.

In May 2000, Australian Rod Eddington, a former Rhodes Scholar with broad airline industry experience particularly in Asia, was appointed as CEO of British Airways. Following a loss of £200m GBP in 2002 on the back of 9/11, Eddington launched the *Future Size and Shape* program aimed at reducing staff numbers by 13,000, closing flights on unprofitable routes, driving complexity out of the business and seeking process improvement and cost efficiency from all parts of the British Airways business. The success of *Future Size and Shape* allowed BA to report a profit of £135m in 2003, despite a decrease in turnover. Offshore ITO and BPO

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<sup>18</sup> Penter, K., Pervan, G., & Wreford, J. (2009a). *Effective Management Strategies for Outsourcing Using Different Engagement Models-A Case Study Approach*, p.16.

was a contributing factor in BA's earlier turnaround and continues to a significant part of the business strategy.

### 5.6.2 Role of Information Technology in the BA "Future Size and Shape" Program

<sup>19</sup>Information Technology (IT) played a major role in the *Future Size and Shape* program. One of the first management changes introduced by Eddington was to elevate Chief Information Officer Paul Colby to a 'seat at the top table' by having the CIO report to the CEO. This reflected a commitment to use IT to simplify and automate business processes, particularly in sales and distribution. Eddington's IT credo was:

*"there are no IT projects, there are just business improvement projects in which IT is a critical enabler".*

Prior to *Future Size and Shape*, sales and distribution costs were running at 15%-20% of revenue. A few years later, following the success of the transformation projects enabled by use of OITO and OBPO, sales costs had fallen to single figures as a percentage of revenue.

The selective outsourcing of some aspects of IT services and Business Processes to service providers based in India was an important success factor in the *Future Size and Shape* program. Starting in a small way in 1996, and adopting different strategies for IT services and for Business Process Outsourcing, BA was able to obtain unit cost savings in the order of 40%-60% from offshore outsourcing (eventually amounting to 100 million GBP per annum), and build its captive BPO operation into a global BPO industry leader. A detailed assessment of British Airways' OITO and OBPO strategy confirms the observation of Dibbern, Goles, Hirscheim and Jayatilaka (2004) that these are complex phenomena in which business context plays a major part in determining success.

### 5.6.3 Starting Small: British Airways commences OBPO to WNS

<sup>20</sup>When BA commenced OBPO to India in a small way in 1996, it could draw upon almost 70 years of experience of operating in India. The airline started World Network Services (WNS) Private Limited as a fully owned subsidiary in Mumbai, India, in November 1996 with an initial investment of 1 million GBP. BA reported at the time that it could hire more highly qualified staff in India for approximately 20% of the total remuneration cost of similar staff positions in the United Kingdom (Robinson & Kalakota, 2004).

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<sup>19</sup> Penter et al., (2009a, p.17)

<sup>20</sup> Penter et al., (2009a, p.18)



The first business process that was performed in India was passenger-revenue accounting. Marshall (2005) reported that, prior to the impact of the Internet and e-tickets, this operation in 1996 was labour-intensive and involved processing of over 36 million flight coupons. WNS commenced with 12 staff and 2 business processes to manage.

A key consideration for British Airways was whether to go with an established vendor or to set up British Airways' own BPO venture. Marshall (2005) reported that it was decided to set up Speedwing World Network Services (WNS) as a wholly-owned operation based upon the captive model, because this would allow BA to exercise greater control, to ensure quality and would promote internal acceptance by BA managers. Marshall (2005) reports that it was felt that since BA would own WNS, internal managers within the airline would have the confidence to accept output from the Indian venture.

While the airline had been using outsourcing companies in the UK, WNS was the first experience of outsourcing business processes overseas. Mumbai and later Pune were chosen as the locations because British Airways already flew to Mumbai, and so management and staff were familiar with those parts of India (Shaw, 2003). According to Shaw (2003), British Airways chose India for their first foray into OBPO because of the quality and depth of Indian staff. Marshall (2005) described the staff hired by WNS as:

*“very well educated, enthusiastic and [with] a great willingness to learn”*

Twelve months after commencing operations, WNS had grown rapidly, was succeeding beyond expectations and delivering significant cost reductions for British Airways, so additional OBPO functions were transferred. BA was able to use the capabilities of WNS to drive further cost and process improvements, and then continue to scale up the operations to a 24x7 operation with over 1,600 staff by 2002 who were performing OBPO better, faster and cheaper than the parent company (Shaw, 2003) and delivering 40% - 60% cost reductions in the processes transferred.

<sup>21</sup>Eddington (2005) has emphasized that the benefits obtained by BA from OBPO to India went beyond cost saving. The quality of staff and management in the WNS Global Services in India led to continuing process improvements and productivity gains that went well beyond the benefits of cost reduction through labour arbitrage, noting that<sup>21</sup>:

*“The fact that India is four hours ahead of the UK means that our team can this afternoon work on some of the operational challenges for tomorrow during the course of this afternoon, this evening, and then literally hand off the problem overnight to our people in India. When our people in the UK come back next*

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<sup>21</sup> Penter et al., (2009a, p.19)

*morning to address the challenge, they'll find that key elements of it have been solved by our people in India."*

Data gathered in this case study and in the corresponding OBPO supplier case study of WNS shows that between 1997 and 2002, BA transitioned quite rapidly through stages 2-4 in the offshore maturation model developed by Carmel and Agarwal (2002). Further detail on the evolution of WNS is found in section 5.10 below which reports on a case study of WNS.

#### **5.6.4 British Airways Offshore Information Technology Outsourcing (OITO) strategy**

"In contrast to its approach to OBPO, British Airways pursued offshore IT outsourcing through framework contracts with Indian companies NIIT Technologies and TCS. According to Colby (2005), these framework agreements set in place a pricing structure for offshore application development work and gave BA on demand access to the resources in India depending on the internal IT work load. The use by British Airways of offshore ITO resources in this period was primarily about freeing up the internal IT department to focus on core strategy and design work by sending more routine application development work and programming offshore as and when the need arose" (Colby 2005, p. 2).

Referring to the implementation of of a web-based air fare booking application which was done in collaboration with Indian ITO service providers and proved to be an important success in reducing sales costs as part of **Future Size and Shape** , Colby (2005) said:

*"It was designed out of London by us, project managed in Newcastle by us and built by TCS in Chennai. But I'd be losing control of how it all fits together if I outsourced the design to Chennai."*

<sup>22</sup>Offshore ITO has been done through arms-length contracts, rather than through a captive operation, because BA had long experience in domestic outsourcing of aspects of its Information Technology and Telecommunications activities. Using IT service providers located in India was seen as a logical extension of existing IT outsourcing practices rather than a radical departure.

The first experience of IT outsourcing to an Indian service provider was in 1996, when three consultants from NIIT worked on a time and materials basis. Unable to find personnel with skills in the legacy airline software protocol Transaction Processing Facility (TPF) to work on the British Airways Booking System, BA worked with NIIT Technologies to set up a dedicated skills development centre in Mumbai. In 1999, NIIT set up a dedicated development centre

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<sup>22</sup> Penter et al., (2009a, p.20)

for British Airways. NIIT is given the independence to decide whether to conduct the projects in India or at its UK site in High Wycombe near Heathrow Airport. The stringent service levels that are part of this framework contract were consistently met or exceeded by NIIT (NIIT Technologies, 2007).

### **5.6.5 British Airways definition of success from OBPO**

Interviews with BA and WNS executives confirmed that the success model in figure 3.1 in Chapter Three above was well matched to their evolving business relationship. Former CEO Eddington felt that their OBPO strategy was not about cost reduction but rather about technical service quality and strategic considerations, the latter included addressing skill shortages and achieving greater agility and responsiveness. Other BA middle managers were more inclined to stress the cost advantages delivered by WNS, both as a former captive operation and now as an arms' length service provider.

### **5.6.6 British Airways OBPO strategy**

BA differs notably from two other large company case studies (i.e. ANZ Bank and Telstra) described in this research in that it appears to have had a proactive strategic focus from inception of its offshore services outsourcing. Former CEO Sir Rod Eddington felt that this was due to BA's global reach as an airline, and that it was consistent with the company's overall approach to procurement and sourcing.

*“For over 70 years, BA and its predecessor airlines had been sourcing business inputs from around the globe. So when it came to outsourcing business processes and IT services, it seemed logical that we would also take a global sourcing perspective. And we knew India very well, and already had a significant airline presence and workforce in India.”*

<sup>23</sup>BA's OITO and OBPO strategy as it has emerged over time comes closest to global multisourcing (Cohen & Young, 2006; Levina & Su, 2008). It has been based around a relatively small number of service suppliers who were treated as genuine partners, receiving focused attention from the CEO and his executive team through regular governance meetings that typically occurred at 6-monthly intervals.

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<sup>23</sup> Penter et al., (2009a, p.21)

According to former CEO Eddington, BA followed an emergent strategy in developing and monetising its BPO assets in India.

*“We were learning as we went along. With hindsight, we got most of the big pieces of the OBPO strategy right. It helped a great deal that we had been flying to India for more than 70 years; BA understood the Indian environment and people’s aspirations. In terms of the strategic choice between operating through a captive BPO operation or arms-length contracts, we reflected at regular intervals about the most appropriate organisation structure to source the right intellectual capital at the most appropriate cost to BA.”*

### **5.6.7 Selection and transition of OBPO engagement models**

<sup>24</sup>BA executives saw a clear distinction between the nature of their OITO activities on the one hand, and the OBPO to WNS, which was conducted initially as a pure captive for more than 7 years, then as a hybrid captive and finally as a divested service provider from 2006 onwards. The decision to establish a captive operation for BPO was taken because of a perceived need for greater control over activities considered to be closer to BA’s core business operations, and because the unscripted and knowledge-intensive nature of the work (e.g. passenger revenue accounting) required greater collaboration, and to facilitate effective knowledge capture and leverage.

The need to obtain internal acceptance of the outputs of OBPO by managers in BA was another factor that led to initial choice of a captive mode, a factor that has also been significant in ANZ Bank’s strategic choices.

Transition to a hybrid and then divested captive began after approximately 7 years as a pure captive, by which time collaborative practices were strongly embedded in both organisations. BA retains a strong business relationship with WNS which is now executed through arms-length contracting.

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<sup>24</sup> Penter et al., (2013, p.105) op. cit.

### 5.6.8 Summary of Research Framework applied to British Airways

#### A. Business Objectives

Motivation to outsource	Influence on BA decision-making
Cost reduction	Yes - strong
Access to scarce skills and resources	Yes – strong
Focus on core capabilities	Yes – moderate
Business Process Improvement	Yes
Influence of industry regulator (s)	Yes
Scalability	Yes - scalability was very rapid
Speed to implement/realise benefits (cycle time reduction)	Yes - initially moderate, became increasingly important as BA recognised the capabilities that existed at WNS.

#### B. BPO strategy considerations

Strategy element	British Airways choices
Engagement Model	Mixed, initially captive for BPO, arms-length contract for offshore ITO. Subsequently moved to hybrid captive and then divested.
Location	India, initially Mumbai, then Gurgaon.
Relational/Contractual Governance Model	Hybrid of formal governance and strong emphasis on building trust.
Top down or emergent strategy	Aspects of both were present, decision to divest WNS was both planned and opportunistic in timing.
Knowledge management	Key driver for initial selection of offshore captive model, moved to arms-length relationship with WNS after 10 years when knowledge was embedded at WNS.
Approach to managing cultural differences	Proactive and strategic.
Prior outsourcing experience of firm	Significant domestic ITO, captive BPO was first offshore outsourcing, ITO followed.
Strategy changes over time	OBPO strategy evolved over a 10-year period in response to changes in external environment.

### C. BPO outcomes

<b>Business objective</b>	<b>BA business outcomes achieved</b>
Cost reduction	Very significant cost reductions delivered consistently over decade.
Access to scarce skills/resources	Achieved above initial expectations.
Business Process Improvement	Achieved above initial expectations.
Scalability	Yes, enabled eventual divestiture of WNS.
Speed to implement/realise benefits (cycle time reduction)	Achieved.
Retained client firm capabilities	Captive operation enabled BA to retain knowledge and capability for first 8 years.
Did success measures change over time?	Measures remained consistent over time Monetisation of captive operation emerged as an opportunistic goal in 2004.

## 5.7 ANZ BANK'S OBPO STRATEGY: DARING TO DIFFER FROM ITS 'BIG THREE' COMPETITORS

### 5.7.1 ANZ Bank company overview

<sup>25</sup>ANZ was founded in 1835 and is now one of the 10 largest companies in Australia (3<sup>rd</sup> largest in June 2017) with a current market capitalisation of approximately \$82.6 billion Australian Dollars (AUD). With assets in November 2016 of \$900 billion AUD, ANZ has 1,450 world-wide points of representation, over 6 million banking and finance customers and employs more than 48,000 staff worldwide. Total shareholder return for the 12 months to 30 September 2016 was 17.1%, FY16 profit was \$5.9 billion ([www.anz.com.au](http://www.anz.com.au), November 2016).

In its home market of Australia, ANZ has three major banking competitors, each of similar scale and market positioning; these competitors are Commonwealth Bank, Westpac and National Australia Bank (NAB). Collectively, the group is referred to as the 'big four' banks and there are legislative restrictions that discourage mergers between the four major banks on the grounds that any such merger would substantially reduce competition. Among the 'big four', ANZ stands out as having made the strongest commitment to date to OBPO. ANZ has the highest customer satisfaction of any of the four major Australian banks, the highest level of staff engagement and has been expanding into Asia to capitalise on higher rates of growth in these economies. Unlike its Australian banking rivals, which are only now looking to reduce

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<sup>25</sup> Penter et al., (2009a, p.21), op. cit.

back-office costs through contracts with Indian BPO service providers, ANZ has had a long-standing commitment to source ITO and BPO skills in India through its operations based around a captive model in Bangalore, India.

ANZ has owned a technology business now called ANZ Operations, Technology and Shared Services (OTSS) in Bangalore since 1989. It acquired ANZ OTSS as part of a major acquisition of Grindlays Bank. During the past 28 years, ANZ OTSS has established a specialist capability in developing and managing software and technology for many of ANZ's systems. In the past decade, ANZ OTSS has also developed a significant business processing capability at its Bangalore captive.

Addressing the Trans-Tasman Business Circle in Sydney in November 2007, the previous ANZ Chief Executive Officer Michael Smith announced the further expansion of the ANZ Operations, Technology and Shared Services (OTSS) business unit based in Bangalore.

*“My intention is that we’ll continue to develop [the] Bangalore [unit] in the coming years, such that it becomes a strategic asset for ANZ in innovation, cost and service. At ANZ, we are committed to keeping our call centers and customer facing roles at home in Australia and New Zealand ... but a significant part of our software development and technology support now goes on in Bangalore”.*

The strategic importance of the speech by Smith was two-fold. Firstly, it affirmed the future of ANZ OTSS in the bank's overall strategy (including its contribution to innovation) and secondly it provided strong support for India's role as a global leader in OITO/OBPO service delivery, noting that:

*“In a number of technology and operational areas, Indians are some of the most skilled professionals in the world. These are skills which are in chronic short supply in Australia and New Zealand”.*

### **5.7.2 People management and organisational development at ANZ OTSS**

<sup>26</sup>At the time of data collection, ANZ employed approximately 2,800 people in its Bangalore captive operation. About 1,600 were engaged in IT service, 900 worked on business processes such as payroll, accounts payable and mortgage documentation and 300 people provided management and administrative support. Approximately 20 staff in the Bangalore operation had relocated from Australia. By April 2017, ANZ OTSS had grown to over 7,000 staff. The work performed by ANZ staff located in Bangalore falls into the category referred to in

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<sup>26</sup> Penter et al., (2009a, p.22)

Chapter Three above as Knowledge Services; it requires application of business judgement and also deep knowledge of the banking and finance domain.

ANZ Banking Group plans to continue expanding the scope of its Bangalore operation, with the objective of continuing to reduce costs and boost productivity. In October 2012 then CEO Mike Smith announced a plan to cut ANZ's cost-to-income ratio by a further 2% by making greater use of the Bangalore OTSS hub, and also by expanding OBPO to centres in the Philippines (Manila) and China (Chengdu). As a result, ANZ had more than 7,000 staff at its Bangalore OBPO hub in 2017 with additional OBPO staff located at the captives in Bangalore and Chengdu (Kehoe & Earl, 2012, [www.anz.com/india/en/about-us/our-company](http://www.anz.com/india/en/about-us/our-company)).

ANZ regards OTSS not just as a captive ITES operation, but as an *integrated captive* meaning that the bank has set out to create 'ANZ in Bangalore' that has fully assimilated the parent company culture. Staff members in Bangalore are given the same corporate and organizational development training as staff in the parent company, and HR policies in Bangalore are the same as in the other parts of the Bank. In terms of maturation stages for offshore outsourcing, ANZ OTSS clearly fits the description of proactive strategic (Carmel and Agarwal, 2002).

While OTSS has been operating for the past 28 years, it has only been since 2004 that the focus shifted to adopting the model of a fully integrated captive where ANZ corporate culture is fully adopted. It is this shift in focus over the past decade that has enhanced the prospects of OTSS delivering a demographic dividend to the parent company by producing a cadre of culturally agile staff and managers who are adept in operations and technology and capable of relatively seamless relocation to other parts of the global ANZ Bank. The shift in focus is consistent with the theory that an organization's operational, tactical and strategic goals for outsourcing will change over time (Cullen, Seddon, & Willcocks, 2008). It also appears to confirm the theory advanced by Oshri, Kotlarsky and Liew (2008) that the utilisation of offshore captive assets will also change over time.

### **5.7.3 Business benefits delivered by ANZ OTSS**

ANZ obtains significant reductions in its cost-to-income ratio from the successful performance of the Bangalore operation, and more recently from its OBPO hubs in Manila and Chengdu. As well as IT development and support, functions now performed in Bangalore include back-office processing for credit cards, mortgages, wealth management products and human resources. ANZ executives consider that OTSS delivers a 50% reduction in operational costs associated with the business processes performed in Bangalore. At the time that case study data was being collected, ANZ was paying approximately \$8000 AUD per annum in Bangalore for an IT graduate; a similar graduate in Melbourne if available would be seeking



at least \$40,000 - \$45,000 AUD (based on data collected in August 2007). The then head of ANZ's OTSS operation in Bangalore, Fred Bertram, estimated that it would take more than a decade for rising wages in India to erode the benefits obtained from labour cost arbitrage.

ANZ is also seeking strategic benefits from OTSS through a transformational agenda (Lindner, 2004). By co-locating Information Technology, Operations and Shared Services in an environment where there is a critical mass of skilled people focused on continuous improvement it is able to 'lift and shift' business processes from anywhere within its global operations, deliver immediate cost reductions and then achieve further benefits, including reduced cycle time, through re-engineering of the processes. Strategic agility is enhanced because resources can be freed up to support key aspects of ANZ's growth strategy, such as expansion into business banking in Asia.

Compared to most contractual models for OBPO, ANZ executives believed that the captive model offers important advantages in capturing and leveraging knowledge when the business drivers are transformation and strategic agility.

ANZ also notes the major commitment that its global competitors, such as Citibank, Barclays and Standard Chartered Bank have made to the OBPO model. ANZ OTSS is expected to be a major contributor to ANZ's goal to be at world's best practice in banking operations.

Business benefits obtained by ANZ from OTSS can be broadly classified into the following categories which match those identified by Cullen, Seddon and Willcocks (2008) in a meta analysis of research into ITO outcomes:

- Value for money
- Improved financial results (e.g. cost to income ratio)
- Improved operations (e.g. support for Asian expansion)
- Strategic outcomes (matching global competitors, pool of culturally agile staff, transformational outsourcing)

#### **5.7.4 Management challenges and risks for OTSS**

As processes are 'lifted and shifted' from other parts of ANZ Bank and transferred to the Bangalore operation, the capture, transfer and leverage of tacit knowledge remains a challenge. While the rate of staff turnover at OTSS is much lower than industry average in Bangalore (which approaches 25%-30% per annum), high rates of attrition can increase risks associated with knowledge management.

Maintaining the engagement of Bangalore staff with the ANZ brand and culture has been a major focus of Bertram and his senior team, and continuing effort in this regard helps keep

staff attrition at low levels. This approach appears to be consistent with ITO theory which proposes that success in offshore services outsourcing requires significant relationship-specific investment and building of trust between client and suppliers (Heeks, Krishna, Nicholson & Sahay, 2001; Lee, Huynh, & Hirscheim, 2008; Levina & Su, 2008; Levina & Vaast, 2008).

Getting “buy in” and support from business process owners in other parts of ANZ is considered a critical success factor (referred to by Bertram as “selling the Bangalore story”). Clarity of definition of business requirements has been as a risk that must be managed, and senior management mentoring is required to avoid an “us versus them” mentality, which can be reflected in attitudes such as “we’ll throw that problem over the wall to the people in Bangalore and see what they make of it”.

<sup>27</sup>OTSS currently delivers a 50% reduction in operational costs associated with the business processes being performed in Bangalore. However, cost advantages may be reduced in the future due to BPO industry expectations for continued and high increases in salaries. Shortcomings in the Bangalore transport infrastructure can also impact productivity.

#### **5.7.5 ANZ’s strategic options with OTSS**

ANZ plans to retain ANZ OTSS as an integrated captive so that it will continue to deliver improvement in the parent company’s cost to income ratio. It is also an ideal platform to support ANZ’s Asian business banking expansion. Having IT, operations and shared services functions sitting side by side generates opportunities for process improvement. Increasingly, OTSS is likely to deliver a demographic dividend by producing culturally agile staff and managers who can move from Bangalore into other parts of global ANZ.

As the limits of organic growth are reached in the ITO and BPO industry in India, a mature and well performing operation like OTSS may become an attractive target for acquisition or investment by world-class transnational ITES companies.

ANZ is the only major Australian bank operating a captive BPO operation in India. ANZ OTSS has had opportunities to take on work for other financial services companies, and thus pursue a strategy similar to that adopted by British Airways and GE to build up their formerly wholly-owned Indian BPO centres prior to the introduction of private equity. But ANZ has decided against this strategy. In terms of the framework proposed by Oshri, Kotlarsky and

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<sup>27</sup> Penter et al., (2009a, p.24) op. cit.

Liew (2008), ANZ has at various times considered each of the strategic options and continues to prefer the pure captive model.

With ANZ and other competitor banks set to take on major IT challenges over the next 5 years as they replace legacy banking platforms, ANZ considers that the risks are too great that taking on additional work on a commercial basis would become a distraction to staff and management.

According to Bertram, the success of ANZ OTSS has been due to<sup>28</sup>:

*“history and good timing, a degree of good fortune and a degree of good management; certainly we are further down the offshoring track than any of our Australian competitors”.*

#### **5.7.6 ANZ’s definition of success for OBPO**

<sup>28</sup>For a number of years, ANZ Bank had primarily a cost reduction objective for its captive BPO and ITO operation in Bangalore. OTSS has succeeded admirably in that respect, contributing significantly to reductions in ANZ’s cost-income ratio. Technical service quality has also been a major focus for a number of years, managed in similar fashion through KPI’s and SLA’s to BA’s business relationship with WNS, its former captive BPO operation.

Over the past decade, ANZ Bank has also sought strategic advantages from its Bangalore captive, including support for its Asian expansion and generating a demographic dividend for the global bank through creation of a cadre of culturally agile managers. ANZ Bank has also taken the opportunity to use its integrated captive to obtain competitive advantage over its main Australian-based rivals, and parity with its regional and global competitors which are operating their own offshore captives. Interviews with ANZ Bank and OTSS executives, together with the published views of ANZ CEO Michael Smith, confirmed that the OBPO success model outlined in figure 3.1 in Chapter Three was a very good fit with their aspirations for OTSS.

#### **5.7.7 ANZ’s OITO and OBPO strategy**

ANZ has placed the strongest emphasis on the role of its captive operation in its overall OITO/OBPO strategy, and has deliberately positioned both IT and business processes side by side in its Bangalore captive with a view to fostering innovation and business improvement. ANZ’s strategy appears to come closest to transformational outsourcing (Lindner, 2004).

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<sup>28</sup> Penter et al., (2009a, p.23) op. cit.

After a number of years in which its offshore outsourcing strategy corresponded to maturation stage 3 (proactive cost focus) as proposed by Carmel and Agarwal (2002), the past decade has seen ANZ move decisively to stage 4 (proactive strategic focus). The lack of commitment to offshore services outsourcing by ANZ Bank's major Australian banking competitors (known collectively as 'the big four') also appears to have reinforced the competitive differentiation and strategic advantages that ANZ obtains from OTSS.

In determining the future evolution of OTSS, ANZ has considered strategic options, including moving from a pure to a hybrid captive (Oshri, Kotlarsky & Liew, 2008); however the risks of loss of focus are considered too high. Following confirmation by ANZ's previous CEO Mike Smith in December 2007 that OTSS would continue to be developed as a strategic asset with the objective of achieving further cost savings, service quality and innovation, there has been a clear sense of direction that OTSS will be maintained as a pure captive. Opportunities have been taken to enhance the capabilities and functions of OTSS.

Starting in 2010, ANZ teamed with Accenture to develop world's best practice in its "record to report" finance and accounting function. ANZ sought to standardise business processes and the underlying technology platform to provide its managers with greater visibility and control, and to create a better decision-making and reporting platform. Business objectives for this initiative, which was referred to as the "Finance shared services Centre of Excellence" included:

- Standardisation of processes across the global ANZ banking operation
- Increased productivity
- Reduced operational expenditure
- Improved customer service
- Faster cycle time and capability to scale business processing capability to incorporate new functions and geographies as required

Accenture worked with ANZ in a hybrid model whereby Accenture first built the Finance Centre of Excellence (COE) with Accenture investing the capital and providing the staff, and then subsequently transferring ownership of the COE to ANZ upon successful completion of the engagement. The advantages of the hybrid model were much faster speed of execution and lower risk for both parties.

There were three major phases in this transformational project:

1. **Transition and stabilisation**, which involved "lift and shift" of existing processes to ANZ captive sites offshore and the deployment of Accenture's Global Process Ownership governance model:

2. **Refine and improve**, which built an understanding of the “as is” model and the changes needed to create world’s best practice business processes. The required improvement initiatives were developed and knowledge was transferred to ANZ staff.
3. **Drive world-class performance as a COE**. With the foundations in place, the operating model was transformed as improved initiatives were rolled out to deliver both cost savings and uplift in capability.

The capability developed in the Finance shared services CEO was transferred to the Bangalore, Manila and Chengdu hubs in 2011, with Chengdu performing the role of providing Chinese-language support for ANZ’s Chinese-speaking business banking customers.

With the creation of additional OBPO hubs in Manila and Chengdu, ANZ Bank’s OBPO strategy has moved in the direction of global multisourcing (Cohen & Young, 2006; Levina & Su, 2008) in a similar manner to the strategies adopted by British Airways and Telstra.

### **5.7.8 Selection of OBPO engagement model by ANZ**

<sup>29</sup>ANZ executives saw the initial establishment of OTSS as something of a historical accident, but were also of the view that the prudential and regulatory framework under which ANZ was required to operate to maintain its banking licence strongly reinforced the advantages of the captive model.

ANZ’s actions to develop OTSS as ‘ANZ in Bangalore’ and more tightly integrate the captive into its global operations can be interpreted as redefinition (or elimination) of the organisational boundaries and status differences between the captive offshore services unit and the core business in order to improve collaboration effectiveness. These management directions by ANZ appear to be consistent with prior theory regarding improvement in collaboration effectiveness in offshore services outsourcing (Levina & Vaast, 2008)”.

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<sup>29</sup> Penter et al., (2009a, p.26), op. cit.

### 5.7.9 Summary of research framework applied to ANZ Bank

#### A. Business Objectives

Motivation to Outsource	Influence on ANZ decision-making
Cost reduction	Yes – strong
Access to scarce skills and resources	Yes – strong
Focus on core capabilities	Yes – strong
Business Process Improvement	Yes – strong
Influence of industry regulator (s)	Yes
Scalability	Yes - linked to Asian Region growth strategy
Speed to implement/realise benefits (cycle time reduction)	Yes – strong

#### B. BPO Strategy Considerations

Strategy Element	ANZ choices
Engagement Model	Strong focus on captive model for OBPO and ITO.
Location	India (Bangalore), Philippines (Manila) and China (Chengdu).
Relational/Contractual Governance Model	Primarily based on building trust and incorporating offshore captives into ANZ culture.
Top down or emergent strategy	Initially emergent, then top down and well integrated into overall ANZ Bank Asian business banking expansion strategy.
Knowledge management	Key driver for integrated offshore captive model, has received strong investment through senior management commitment and technology.
Approach to managing cultural differences	Proactive and strategic.
Prior outsourcing experience of firm	Significant domestic ITO, with offshore captive operation since 1989.
Strategy changes over time	OBPO strategy has been remarkably consistent over time, new locations have been added (Manila in April 2010, Chengdu in Sept. 2010).

### C. BPO Outcomes

<b>Business Objective</b>	<b>ANZ business outcomes achieved</b>
Cost reduction	Very significant cost reductions delivered consistently, reduced cost to income ratio.
Access to scarce skills/resources	Achieved above initial expectations.
Business Process Improvement	Not initially, achieved after integrated captive strategy adopted.
Scalability	Yes, Bangalore captive scaled up on several occasions, then Manila and Chengdu hubs added.
Speed to implement/realise benefits (cycle time reduction)	Achieved.
Retained client firm capabilities	Strategy based around integrated captive was designed to ensure ANZ retained capabilities.
Did success measures change over time?	Move to an “integrated captive” strategy in 2004 represented paradigm shift.  Measures have remained consistent since adoption of integrated captive strategy.  Chengdu and Manila OBPO hubs added to replicate Bangalore success.

## 5.8 TELSTRA’S OITO AND OBPO STRATEGY – SEARCHING FOR STRATEGIC AGILITY

### 5.8.1 Telstra company overview

<sup>30</sup>Telstra Corporation is Australia’s seventh largest company by market capitalisation as measured in June 2017 (\$52 billion Australian dollars, equivalent to \$33.5 billion USD), and is one of the world’s ten largest telecommunications companies (telcos) measured by market capitalisation. With revenues of \$27.1 billion AUD and net profit after tax of \$5.8 billion Australian dollars in fiscal year 2016, Telstra leads its telco global peers across a number of financial performance measures (Penn, 2016). Telstra is an integrated and fully converged telco, offering fixed line, wireless, broadband and subscription TV services to its customer base, which is predominantly in Australia and Asia, although it operates in about 60 countries around the globe.

Telstra has been a leader among large Australian companies in extensively outsourcing IT and BP services for more than 17 years (Grant, 2005; Fisher, Hirschheim & Jacobs, 2008).

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<sup>30</sup> Penter et al., (2009a, p.12), op. cit.

Currently, Telstra's spend on OITO and OBPO is estimated at more than \$2 billion AUD per annum.

Telstra's outsourcing configuration has evolved over more than two decades through 4 major phases (Fisher, Hirschheim & Jacobs 2008; Fisher, Hirschheim, Jacobs & Lazaro, 2014) which are summarised below in table 5.3 below:

**Table 5.3 Telstra's ITO and BPO Configuration**

	<b>Phase 1</b>	<b>Phase 2</b>	<b>Phase 3</b>	<b>Phase 4</b>
Period	1995-2000	2000-2003	2003-2006	2006-2008
Business motivation	Cost reduction	Cost reduction service quality	Cost reduction flexibility	Strategic agility & cost reduction
Supplier configuration	Sole source JV/alliance	3 suppliers	4 suppliers arms-length	Global multisourcing (*see note below)
Supplier relationship quality	Poor	Poor	Improving	Generally effective
Offshore posture	Bystander	Experimentation	Proactive cost focus	Proactive strategic

\*In this period, Telstra's supplier configuration was based around 4 strategic partners and multiple local, tactical suppliers selected on a 'horses for courses' basis; in other words, a decision to use a local supplier was matched closely to the business recruitments of an *ad hoc* tactical initiative or set of activities. In this respect, Telstra's supplier configuration and services outsourcing strategy in this period matches closely to that described by Levina and Su (2008) as global multisourcing.

Perhaps reflecting Telstra's heritage as a former Government-owned Public Telephone and Telegraph (PT&T) operator, albeit one that has been exposed to competition for almost two decades, the evolution of Telstra's services outsourcing strategy can be described as cautious and incremental (Fisher, Hirschheim & Jacobs, 2008).

It has taken a period of more than 10 years for Telstra's services outsourcing strategy to evolve towards global multisourcing (Cohen & Young, 2006; Levina & Su, 2008). In the past decade, there have been two significant changes in Telstra's services outsourcing strategy. The first occurred in 2003 which marked a shift from offshore experimentation to a more proactive



commitment driven primarily by a focus on cost reduction. The second shift occurred in late 2005, coinciding with commencement of Telstra's company-wide Transformation strategy.

Telstra's Transformation strategy was initiated in late 2005, following the appointment in June 2005 of Solomon Trujillo, a new, external CEO. The Transformation strategy required major, new capital investments in excess of \$20 billion AUD over 5 years, to replace legacy IT and network platforms, improve business processes and to remake Telstra as a media and communications company. Business benefits were to be delivered by taking significant costs out of the business through retiring platforms and services that were expensive to maintain, by introducing streamlined business processes, and by optimising a global services sourcing strategy.

Telstra's OITO and OBPO portfolio in this period was based around four global service providers designated as strategic partners; two were Indian-headquartered multinational companies (INFOSYS and WIPRO) and two were US-headquartered MNC's (IBM Global Services and Accenture). Each of the strategic partners adopted a global delivery model, combining a strong local presence close to the customer (in this case, in Melbourne and Sydney, Australia), a large cadre of skilled professionals based in India, and specific centres of excellence at various locations around the world to provide thought leadership.

When Telstra held its annual Investor Day in November 2008, it reported that the five-year Transformation strategy was largely on track. It also launched the first set of converged applications delivered from its Service Delivery Framework (SDF), a new way of bringing telco services to market. SDF was in the process of being adopted by most of the leading global telcos. Based on the concept of using a Web Services 2.0 service orchestration architecture, SDF aimed to reduce cycle time and cost to bring new telco services to market through reuse of predefined modules and business processes (such as subscription, credit management, service activation, fulfilment, etc.). SDF has particular advantages in bringing to market so-called converged telco services combining media, entertainment, mobility, content, search and transactions. For a full service telco such as Telstra, SDF was a critical strategic initiative, and a major element in its overall Transformation program.

Telstra commenced its SDF program of work in 2006, and worked to an initial 5-year plan to deliver SDF as a core way of working. Implementing a SDF presented major IT and business challenges, in Telstra's case involving expenditure close to \$300 million AUD to evolve IT systems and create and implement new business processes. Telstra selected Accenture as its outsourcing services partner for SDF, following a review of proposals from several of its strategic partners.

The services outsourcing relationship between Telstra and Accenture on SDF was chosen for in-depth case analysis because it had involved a continuous work program of both OITO and OBPO over 3 years, delivered via a global delivery model, utilising Accenture staff located in 3 countries (Australia, Italy, India). It is also the type of program identified in the Research Framework presented in Chapter Three as likely to be suitable for implementation via an offshore captive centre. In terms of the model for OBPO supplier competencies identified by Feeny, Lacity and Willcocks (2005), Accenture demonstrated a successful track record in the critical areas of delivery, transformation and relationships.

### **5.8.2 Accenture's approach to Telstra's Service Delivery Framework program**

<sup>31</sup>Accenture was able to quickly assemble a highly skilled team in Melbourne, Australia comprising approximately 60 staff at times of peak demand. Accenture's delivery 'engine room' was located in Rome, Italy where it had a global centre of excellence in telco service orchestration delivery (Broadband Innovation Centre), supplemented by additional skilled resources based in Accenture's Bangalore, India facility. The Accenture team in Rome leveraged the domain knowledge gained from several other successful SDF implementations for US, European and Asian telcos.

Total Accenture workforce engaged in the SDF program at periods of peak workload approached 150 skilled professionals. Accenture's global delivery model provided Telstra with strategic agility on a cost-effective basis. Leadership was provided jointly by a Melbourne-based partner with strong relationships into the client organisation (i.e. Telstra), and a Rome-based partner with deep subject matter expertise.

Capturing and leverage of knowledge between both client and services outsourcing partner was facilitated by Accenture's knowledge management methodology and company culture, both of which have been developed and refined over more than 50 years of experience as an outsourcing service provider (Accenture, 2005).

The decision to select Accenture as the main OITO and OBPO partner for the SDF program was made by Telstra senior executives on the basis of top-down planned strategy, following a competitive process that involved proposals from several of Telstra's strategic partners. Accenture was selected because of deep knowledge of Telstra's business requirements, previous successful experience in telco SDF initiatives and proven methodology for capturing and leveraging knowledge.

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<sup>31</sup> Penter et al., (2009a, p.14), op. cit.

In terms of the OBPO success model (refer to figure 3.2 in Chapter Three), in selecting Accenture, Telstra placed most emphasis on technical service quality and strategic factors, including risk management. Cost reduction, whilst a screening requirement, was not a dominant factor in selection.

The SDF program of work would appear to contradict some recommendations in the OBPO literature regarding suitability of activities for outsourcing insofar as it was a high value, strategic initiative and business requirements were evolving and hence not easily specified. Key factors in the success of the OBPO approach appear to have been the capabilities of the vendor Accenture to quickly deploy a global delivery model that enabled successful business outcomes at acceptable cost. Telstra senior executives generally exhibited *opaque indifference* (Wreford et al., 2012) to the location of Accenture resources working on the SDF program; in other words, they were not generally aware of the global locations of Accenture resources and were largely indifferent anyway provided that business objectives were being achieved at acceptable cost (i.e. within agreed budgets).

On the other hand, some Telstra middle managers were strongly of the view that more Accenture resources should have been located in Melbourne under their direct control, or they preferred to supplement Accenture resources with locally engaged partners. Middle managers were responsible for the success in the market of the new telecommunications services being launched from the SDF framework; hence, they were strongly motivated to control detailed technical service quality, in some cases wanting specification changes ‘on the fly’ in response to changes in the market environment or end customer expectations.

Telstra and Accenture had established joint governance arrangements, and specification changes required formal governance approval, few of which were granted. This created some tensions with middle managers, in effect between the OBPO strategy created by Telstra senior management on a top down, planned basis and then jointly implemented with Accenture senior executives, and the desire of some middle managers to make alternative sourcing decisions. Such tensions, which remained unresolved in the SDF program, have been reported in the OITO/OBPO literature where the concept of dynamic oscillation has been used to describe a hybrid planned emergence process of OBPO strategy formulation (Levina & Su, 2008).

A senior Accenture manager noted that these tensions had to some extent eroded the collaborative advantages of Telstra’s strategic partnering model:

*“Accenture can be a powerful and capable delivery organisation if the client is willing to share information and business challenges. From Accenture’s perspective, I would rate SDF as highly successful in terms of delivery (that is, business outcomes and cost targets achieved), but somewhat unsatisfactory in terms*

*of relationships. There was some friction around issues such as who had decision rights on particular program delivery issues. Despite all of Accenture's formal tools and methodology, program delivery is still more an art than science. And in hindsight, I would say to some [individual Telstra managers] that you need to trust us to practice our program delivery art, and hold us accountable for outcomes rather than seeking to control and micromanage your delivery partner."*

### **5.8.3 Telstra's definition of success for OITO/OBPO**

<sup>32</sup>Telstra has maintained a strong cost reduction focus through its ITO and BPO strategy (see 5.8.7 below), but as a result of earlier learning has placed increasing importance on technical service quality. Since the launch of its company-wide Transformation in 2005, strategic goals such as reduced cycle time, addressing internal skills shortages, access to global best practice in OITO/OBPO and competitive agility, have taken on greater importance. Within Telstra, the consensus among senior management is that the OBPO strategy is delivering value for money, although that consensus is occasionally challenged on specific projects and activities.

### **5.8.4 Telstra's OITO/OBPO strategy**

After a lengthy period (17 years) of mostly cautious incrementalism, Telstra has evolved its offshore services outsourcing strategy to maturation stage 4 (Carmel & Agarwal, 2002). The Telstra 'Transformation Strategy' launched in late 2005 provided major impetus for moving offshore ITO/BPO from stage 3 (cost focus) to stage 4 (strategic focus). Telstra now is following a global multisourcing strategy for both ITO and BPO, with a proactive strategic focus.

The move to a more proactive stance on offshore outsourcing in 2003 was influenced by the actions of EDS, at the time one of Telstra's ITO partners, which had just launched its 'Best Shore' program to establish OITO and OBPO facilities in a number of lower operating cost locations, including a new offshore facility in Mumbai (Robinson & Kalakota, 2004). At the time, Telstra's then newly-appointed CIO had successful previous experience with adoption of OITO/OBPO in another company and saw opportunities to improve business outcomes by applying a similar model in Telstra.

Following the outcomes of the SDF program, Telstra subsequently reviewed and refined its OBPO strategy, initially engaging in arms-length contracting with two global vendors

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<sup>32</sup> Penter et al., (2009a, p.15), op. cit.

(Teletech and Teleperformance) and adding major OBPO centres in the Philippines to its OBPO portfolio. In 2011, influenced by poor customer service outcomes (which were considered to be influenced by high rates of staff attrition in its OBPO partners in the Philippines), Telstra launched a hybrid captive centre (known within Telstra as “Global Contact Centres”) based in Manila and Cebu.

### **5.8.5 Choice of engagement model**

<sup>33</sup>In 2003, Telstra formed a team comprising senior business, IT and sourcing (i.e. procurement) executives to design a new ITO and BPO strategy. The team conducted intense due diligence on the global services outsourcing market and on prospective partners, before making selection through a formal, competitive process. According to a senior procurement executive, the fundamental engagement model was arms-length contracting, although this was not made explicit at the time nor widely debated:

*“We never really gave any thought to starting an offshore captive operation for either ITO or BPO. We had a planned strategy to work closely with leading global suppliers of ITO and BPO, such as INFOSYS, Accenture etc. We wanted to achieve “early wins” in the form of successful projects and cost savings. Then once we commenced work with our outsourcing partners, we were impressed with the service quality that they were delivering from their operations in India. We also invested in development and training of an internal cadre of vendor managers [i.e. relationship managers]. We became fully absorbed in making the relationship work with our strategic partners.”*

### **5.8.6 Telstra changes OBPO strategy to focus on improved customer service**

As noted above, from 2009 onwards, Telstra progressively changed its OBPO configuration, firstly through arms-length contracting with two global providers (Teletech and Teleperformance) and subsequently establishing a hybrid captive centre in the Philippines in collaboration with its OBPO partners.

The shift to a hybrid captive was driven partially by a recognition that OBPO via arms-length contracting was having a negative impact on end customer satisfaction (because “opaque indifference” was not being established; see Wreford, Penter, Pervan & Davidson, 2012), and

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<sup>33</sup> Penter et al., (2009a, p.16), op. cit.

also because of a perception that OBPO had resulted in a “hollowing out” of internal Telstra capabilities.

### 5.8.7 Summary of research framework applied to Telstra

#### A. Business Objectives

Motivation to Outsource	Influence on Telstra decision-making
Cost reduction	Yes - strong
Access to scarce skills and resources	Yes - strong
Focus on core capabilities	Yes - strong
Business Process Improvement	Not initially
Influence of industry regulator (s)	Limited
Scalability	Yes - linked to company transformation strategy
Speed to implement/realise benefits (cycle time reduction)	Yes - strong, linked to transformation strategy

#### B. BPO strategy considerations

Strategy Element	Telstra choices
Engagement Model	Strong focus initially on relationships with arms-length global suppliers, subsequently moved to hybrid captive.
Location	Initially India (Bangalore and then other Indian locations), followed by the Philippines (Manila and Cebu). Choice of location largely left to global suppliers. Hybrid captive established in the Philippines.
Relational/Contractual Governance Model	Primarily based on relationships with well-established global suppliers. Some tensions with middle managers seeking tactical alternative options.
Top down or emergent strategy	Initially emergent, then top down and linked to transformation agenda.
Knowledge management	Effectiveness highly variable, and influenced by skills and methodology of global delivery partners. Transition to a hybrid captive was partially due to recognition that knowledge management needed to improve.

Approach to managing cultural differences	Largely left to global partners until establishment of hybrid captive, and then proactive and management led.
Prior outsourcing experience of firm	Significant domestic ITO, OITO & OBPO led by global partners.
OBPO strategy changes over time	OBPO strategy has changed on several occasions over a decade, often on a reactive basis in response to internal top-down transformational agendas (in other words, in response to changes in overall business context).

### C. BPO business outcomes

<b>Business Objective</b>	<b>Telstra business outcomes achieved</b>
Cost reduction	Yes, cost reductions generally obtained.
Access to scarce skills/resources	Yes, particularly in transformational projects where internal expertise was stretched.
Business Process Improvement	Not initially, achieved after hybrid captive centre strategy adopted.
Scalability	Yes, enabled delivery of transformation projects on time and budget.
Speed to implement/realise benefits (cycle time reduction)	Generally achieved, although with some negative impacts on end customer satisfaction.
Retained client firm capabilities	Internal perceptions are that OBPO has “gone too far”, with a consequent “hollowing out” of internal capabilities.
Did success measures change over time?	Yes, changed significantly in response to internal transformation agendas.

## 5.9 INFOSYS – HELPING TO CREATE A GLOBAL INDUSTRY

### 5.9.1 INFOSYS company overview

Founded in 1981 with its headquarters in Bangalore, INFOSYS Limited is a global multinational that provides consulting, information technology and business process outsourcing services. INFOSYS Limited is listed on the New York Stock Exchange and in April 2017 had a market capitalisation of \$34.3 billion USD with approximately 200,000 employees. Reported revenues for FY16 were \$10.2b USD with profit of \$2.14b. INFOSYS established a presence in Australia in 1999, and now has two development centres and six

offices in Australia. INFOSYS has been a supplier to Telstra for more than 15 years, and in that period its business with Telstra has expanded substantially, and continues to do so.

### **5.9.2 INFOSYS and Telstra working relationship**

INFOSYS commenced operation in the Australian market in 1999 when it acquired two Australian companies that brought with them a portfolio of systems integration and ITO contracts and a relatively large Australian based workforce. INFOSYS was able to quickly integrate these acquisitions into its global delivery model while the Australian staff and existing relationships from acquisitions provided INFOSYS with a strong Australian presence.

Telstra commenced working with INFOSYS in a small way in 2001, and quickly was impressed with its commitment to meeting Telstra's business requirements and the quality of outcomes delivered. As well as cost savings delivered by INFOSYS, Telstra was impressed at the capability that INFOSYS had to scale up quickly at short notice. This capability to respond quickly appeared to be based on INFOSYS having significant "bench strength" in its core operating locations such as Bangalore; young, well trained and highly enthusiastic recent graduates who could be quickly deployed to new projects, thus helping Telstra alleviate skills bottlenecks in areas where it had great difficulty sourcing Australian IT and business processing professionals. INFOSYS won a quality award from Telstra in this period for the consistently high standard of its performance.

The volume of work being performed by INFOSYS grew rapidly, but in the initial 5-year period, Telstra's approach to outsourcing work to INFOSYS led to some tensions in the relationship. Telstra's approach to selecting business processes for outsourcing was cautious and incremental and primarily aimed at driving cost reductions. INFOSYS found itself squeezed on margins and confined to performing low value support and maintenance tasks, and appeared to Telstra to be rather rigid and expensive when asked to take on work that went beyond the strict parameters of existing contracts.

Tensions in the relationship were gradually eased in the period from 2007 onwards when Telstra's overall business strategy changed, with a focus on transforming the company to become more focused on delivery outstanding service to its very large base of customers. INFOSYS was able to contribute to Telstra's transformational agenda and demonstrated a capability to deliver innovative solutions, including partnering with Telstra to design and deliver Australia's iconic Emergency Alert System which came into prominence following the notorious "Black Saturday" bushfires in 2009 that took 173 lives in the State of Victoria.

INFOSYS also adopted new ways of pricing its services and showed that it was capable of transforming its own culture, with an emphasis on Design Thinking which involves helping



clients to re-imagine and prepare for the future, with rapid prototyping of new IT and BP capability enabling new and innovative solutions. INFOSYS also launched a “zero distance to the customer” framework with Telstra, aimed at empowering its own staff to work much more closely with customers such as Telstra. Through these two initiatives, INFOSYS can be seen to be re-inventing its internal culture so that it delivers through arms-length contracts many of the advantages of the captive engagement model.

Building on its success with Telstra, INFOSYS also won significant business with WESTPAC and National Australia Bank (NAB), two of Australia’s “big four” banks, and competitors of ANZ Bank.

### **5.9.3 INFOSYS BPO capability**

INFOSYS BPO was set up in 2002 as a wholly-owned subsidiary to focus on providing integrated end-to-end BPO solutions. INFOSYS BPO was established from a joint venture with Citicorp that was known as Progeon, which originated from Citicorp’s captive operations in India. INFOSYS bought Citicorp’s equity in Progeon in 2006 and since then the much expanded venture has been known as INFOSYS BPO which in April 2017 reported that it had approximately 34,600 staff.

A major challenge for INFOSYS BPO and a major area of management focus has been reducing staff attrition which has been running at 35% per annum. In recent years, INFOSYS BPO employees have received average wage increases of 8% per annum. As most attrition occurs in the first year that a staff member is employed, major focus has been placed on creating a shared impression for staff that BPO provides worthwhile career opportunities, and that it provides an attractive and relatively secure long-term career and profession. To build broad-based knowledge and awareness of the benefits of a commitment to the BPO industry, INFOSYS and NASSCOM have developed 180 hours of tertiary course content and are working with 23 universities to develop certificate and degree programs directly relevant to the BPO industry.

INFOSYS OBPO pricing can be based on FTE equivalent (headcount model), transaction pricing, workflow management, gain sharing or some combination of each. INFOSYS notes that many OBPO clients initially cannot price well in the early stages of commencing outsourcing, so engagements often start with a simple FTE or headcount model. In these early stage assignments, INFOSYS will review processes and advise clients of opportunities for improvement and the pricing model may then shift. Gross operating margins for INFOSYS are lower in OBPO at around 25% than for OITO which is closer to 35%, but 90% of OBPO

business is repeat business, and typical contracts are for 3-5 years so there is stability for INFOSYS in the OBPO business.

#### **5.9.4 People management and organisational development at INFOSYS**

At the heart of the enduring success of INFOSYS is its Mysore campus set on 143 hectares in southern Karnataka state, about 4 hours' drive from INFOSYS headquarters in Bangalore. INFOSYS hires as many as 15,000 engineering, computer science or IT management graduates annually. Every new graduate hired by INFOSYS attends for a period of 6 months, with the objective of these courses being to turn graduates into professionals who can quickly make a contribution once they commence their working career in an INFOSYS team.

Mysore is a historic Indian city and its palaces and temples speak to cultural continuity stretching back centuries. On the other hand, the INFOSYS campus, arguably the world's largest private university, speaks to INFOSYS leadership in the 21<sup>st</sup> century OITO and OBPO industry. At any time between 6,000 and 14,000 new INFOSYS employees are students-in-residence, acquiring an IT "finishing school" that adds to their technical knowledge and provides a portfolio of consulting and client relationship management skills.

It is also at the Mysore campus where newly recruited employees begin absorbing the INFOSYS values and culture, with a 50:50 gender balance and a foundation message that INFOSYS is a meritocracy in which gender, caste and religion are irrelevant.

#### **5.9.5 INFOSYS key strengths and opportunities**

INFOSYS has enjoyed enormous growth and success in the 35 years since its foundation, much of which has been built upon the "demographic dividend" (Asher & Nandy, 2007) obtainable from the capabilities that INFOSYS has developed to recruit and induct large numbers of young, enthusiastic and well-qualified graduates. It is this cohort that has simultaneously provided INFOSYS with its formidable "bench strength" that enables rapid response and ability to quickly scale up, and also its cost competitiveness.

With a presence in 50 countries, INFOSYS has also been able to build global scale and a multinational culture while retaining the core values that have driven its success. In recent years, INFOSYS has shifted its internal culture through programs such as "Design Thinking" and "Zero Distance" to position itself as a provider of transformative outsourcing and a partner capable of delivering innovation to its clients.

Emerging technologies such as Service Process Automation and digitisation of customer service present a challenge to the core business model adopted by INFOSYS, making it highly

likely that the company will need to re-invent itself in the next decade. During the same period, aging populations in North America, Europe and Japan will create a shortage of skilled professional workers while increased life expectancy in OECD countries will have significant implications for health care outsourcing and offshoring, likely to increase demands for the OBPO services that INFOSYS will be offering.

## **5.10 WNS – A “PURE PLAY” GLOBAL OBPO SERVICE PROVIDER**

### **5.10.1 WNS company overview**

In April 2017, WNS announced its results for quarter three of FY17 to the New York Stock Exchange and reported that its revenues were up 7.2% compared to the same quarter in the previous financial year and that it had added 36 new BPO clients in the quarter just completed. On an annual basis, WNS had revenues of \$602.5m USD for FY16 and reported an annual profit of \$37.8m. With nearly 34,000 staff and 42 delivery centres in 13 countries and a market capitalisation of \$1.63b USD, WNS had come a long way as a “pure play” global BPO operator since its foundation in 1996 as World Network Services, then a captive operation of British Airways.

After beginning operation in 1996 as a captive centre for British Airways, WNS now has over 200 of the Fortune 500 companies as OBPO clients and provides services to clients in travel (especially airlines including British Airways, SAS, Finnair, Air Canada, United Airlines and Virgin Atlantic), banking, financial services and accounting, healthcare, utilities, retail and consumer products. In dealing with its OBPO clients, WNS emphasises a partnership approach and its ability to combine its business process management expertise with proprietary technology-enabled platforms that it has developed to drive BPO efficiencies. Notwithstanding its global presence, India remains at the heart of WNS operations with 20,000 staff and 18 out of 42 development centres.

Key milestones in WNS’ journey include its entry into knowledge-intensive services in 2001, and its Initial Public Offering on the New York Stock Exchange in 2006, the first Indian BPO operator to be so listed. Having started as a captive centre for British Airways, WNS continued its relationship with British Airways through arms-length contracts. In June 2013, BA and WNS announced an extension of their BPO service contract. WNS was continuing to provide OBPO services across sales and customer care, operations and shared services including Revenue Management, Revenue Accounting, Cargo Operations, Customer Relations, Data Management Information Services, HR Services and the BA Holidays travel agency. The new contract placed increased responsibility on WNS to drive transformation, technology

enablement and overall process efficiency through British Airways's Value Improvement Program.

Under this latest contract, WNS will have over 1,200 staff managing over 1 million transactions a month including key components of BA's core business operations. The WNS/BA relationship began in 1996 with a 12-person team processing just over 1,000 transactions per month. WNS has built its travel industry practice to the point where it has over 7,500 travel domain experts globally and provides OBPO services to many of the world's leading airlines, hotels, cruise lines and car rental companies.

Because of its long standing engagement with British Airways, this case study of WNS focused predominantly on that part of the business that continued to deliver services to British Airways and other clients in the airline industry.

### **5.10.2 Establishment and early growth of WNS**

<sup>34</sup>From inception, WNS gained a reputation for high quality staff and management, an open, team-oriented work culture and an excellent work environment based on adhering to BA's staff charter. British Airways' former CEO Rod Eddington believed that creating an excellent work environment pays off in terms of quality of staff output, and this philosophy was adopted at WNS. The BPO strategy also involved rotating long-serving BA managers through WNS in order to leverage knowledge in both directions, and to build up camaraderie and team spirit. This approach appears consistent with the model of collaboration effectiveness described in Levina and Vaast (2008).

All business processes that were transferred to WNS had a service-level agreement (SLA). This document gave both parties to the transaction targets to work towards, and also to use as measures of quality and consistency. The SLA also provided clarity on roles and responsibility, and on process transfers or 'hand offs'. The senior management of BA and WNS measured the success of the BPO by the extent to which it lowered the cost of the functions being handled, and by the level of acceptance by internal BA management. Both were considered equally important.

Twelve months after inception, WNS had 350 staff and was delivering 40%-60% cost reductions to the parent company (Shaw, 2003). Additional business processes in financial operations and the BA Executive Club were identified and transferred to WNS, so that by

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<sup>34</sup> Penter et al., (2009a, p.18), op. cit.

2002, there were over 1600 staff working in India and WNS had moved to a 24x7 operation, thus providing a platform to perform BPO faster, better, cheaper (Shaw, 2003).

As a result of these initial achievements, BA was able to use the capabilities of WNS to drive further process improvements. For example, the cost and quality of revenue audits performed by WNS were of such high quality and low cost that BA was able to increase revenues by performing more regular audits (Shaw 2003).

### **5.10.3 Transformation of WNS to an independent ‘pure play’ OBPO service provider**

The success of WNS attracted interest from other airlines regarding the possibility of commercial agreements with BA/WNS that would enable them to outsource similar functions, such as revenue accounting and management of Frequent Flyer Programs, to WNS. BA saw advantages in performing OBPO for other airlines as it provided economies of scale and generated additional revenue for WNS. This diversification of the revenue and customer base in turn presented BA with opportunities to monetise the value that it had created through its captive BPO operation.

With US and global private equity capital pouring into India in the early years of the 21<sup>st</sup> Century, British Airways took the opportunity to sell down a majority share in WNS to Pincus Warburg in April 2002. British Airways retained a 30% stake in WNS Global Services and continued as a major customer.

On the 26 July 2006, WNS began public trading on the New York Stock Exchange (NYSE), raising \$224 million USD and becoming the first ‘pure-play’ OBPO service provider company to list on the NYSE. In September 2006, WNS advised investors that its travel services client base included 30 leading airlines and travel agencies, and it also announced a new multi-year contract to provide revenue accounting and audit services for a leading North American airline (later confirmed as United Airlines). The announcement represented a major milestone on the journey from British Airways captive operation to one of the world’s leading independent BPO companies. The evolution of WNS has proceeded progressively through the stages of pure, shared and divested captive (Oshri, Kotlarsky & Liew, 2008), and to have been consistent with the theory advanced by these authors.

### **5.10.4 Challenges for WNS as an independent, global OBPO service provider**

WNS management considered that the decision in 2001 to focus attention on Knowledge Services was strategically significant as it enabled the company to start to move away from a simple cost-arbitrage business model and be able to win recognition for their capabilities to deliver transformational OBPO.

WNS management were of the view that they could demonstrate this most easily in the airline and travel industry sectors. When British Airways commenced captive OBPO at WNS, they had started with 12 staff and very quickly transitioned to 1,200 staff on the basis of the OBPO value and quality that WNS was delivering. WNS started off managing two processes for BA, and had evolved to the point where they were now responsible for over 80 processes on behalf of BA, including a number of high value adding tasks such as managing compensation for lost luggage and dealing with the Frequent Flyer program.

A key success factor in the relationship with BA was the willingness of client company management to transfer decision rights to WNS for business processes that were outsourced (i.e. they allowed WNS staff to exercise judgement and make decisions on behalf of BA). As WNS expanded its business to other industry sectors, one of their key challenges was persuading client companies about the need to systematically hand over certain decision rights associated with the processes being outsourced.

As part of the transition from British Airways OBPO captive centre to a stand-alone “pure play” global OBPO supplier, WNS had grown rapidly through acquisition, and another major challenge was to integrate acquisitions and to maintain the WNS culture. A related challenge that came from being listed on the NYSE was what WNS senior management referred to as “the tyranny of quarterly conference calls” whereby they had to participate in conference calls with stock market analysts and explain their results and also explain any missed milestones or targets.

However, WNS management also noted that listing on the NYSE helped considerably in winning new global clients because it provided these clients with confidence about WNS financial strength and transparency. Raising additional capital and strengthening the WNS brand in this way also enabled WNS to grow more rapidly through acquisitions and to establish new vertical market segments in health care, mortgage services and insurance. This gave WNS improved economies of scale and reduced business risk by diversifying its business away from an over-reliance on airlines and travel which can be highly impacted by global shocks, such as 9/11 or the GFC.

#### **5.10.5 WNS key strengths and opportunities**

WNS appears to have evolved an internal culture that is very impressive, combining global best practice in business process management with unique Indian workforce characteristics of enthusiasm, optimism and relationship management skills. While the quality of senior business leadership at WNS has been widely recognised, another key success factor for WNS appears to have been the strength and depth of middle management.

WNS considers that their very strong brand name and reputation for providing career paths and advancement has been a key success factor as 50% of their recruitment is on the basis of referrals by current WNS staff. There is systematic internal training for all staff at all levels in the company, and middle managers have a key performance indicator (KPI) to ensure that each of the staff in their divisions has participated in 25 days of training per annum.

WNS considers that one of their strengths is that they can provide transformational OBPO and their aim is to build relationships with clients so that “WNS becomes embedded in the DNA of the client company”. They are of the view that they are often competing for business with a client company’s captive BPO, and note that for many potential client companies, the business case for continuing with a captive operation is based on data security and control of intellectual property.

Hence, WNS places a very strong emphasis on maintaining security and privacy of client data and on formal management of knowledge in an OBPO relationship, which WNS refers to as their “extended enterprise” operating model, whereby WNS is providing an extension of the client’s enterprise through its OBPO delivery.

## **5.11 ACCENTURE – THE WORLD’S MOST ADMIRER IT SERVICES COMPANY**

### **5.11.1 Accenture company overview**

Accenture began as the business and technology consulting division of accounting firm Arthur Andersen. It was an early pioneer in the commercial use of computers in the USA, commencing from the early 1950’s. In 1989, Arthur Andersen and Andersen Consulting became separate units, and then after increasing tensions between the two units through the 1990s, Accenture was spun off on 19<sup>th</sup> July 2001 as a separate entity trading on the NYSE. On 26 May 2009 Accenture announced that it had shifted its place of incorporation to Dublin, Ireland, although it continues to be listed on the NYSE (Accenture, 2005). In June 2017, Accenture had a market capitalisation of \$82.46 billion USD, with \$32.9 billion net revenue for fiscal year 2016.

Now rated by Fortune Magazine as the world’s most admired IT services’ company, Accenture counts 94 of the Fortune 100 companies among its clients and has a global presence with offices and operations in more than 200 cities in 55 countries. Accenture has approximately 400,000 staff in its world-wide operations, including 130,000 staff in India, 50,000 staff in the Philippines and 48,000 staff in the USA.

Accenture has five operating groups as listed below:

- Strategy
- Consulting
- Digital
- Technology
- Operations

Accenture Operations focuses on an “as a service” model of delivery to clients and is the “home” of BPO for Accenture. The Operations group includes business process outsourcing, IT services, cloud services, managed operations, security and infrastructure services.

### **5.11.2 Expansion of Accenture’s BPO capability**

Accenture’s key BPO value proposition is deep experience in large-scale OBPO transformation programs, with experience going back to 1991 when it commenced a BPO program with BP (British Petroleum) that has continued through to 2017 (Lacity & Willcocks, 2017). Accenture’s ground-breaking arrangement in 1991 involved taking over all of BP’s North Sea finance and accounting functions. This BPO arrangement between Accenture and BP proved to be so successful that it led to a 50% reduction in costs for BP, and also enabled Accenture to win further clients in the North Sea oil industry. By the end of the decade, Accenture (then known as Andersen Consulting) would handle over 40% of the North Sea oil industry’s back office functions (Accenture, 2005).

From 2002 onwards, Accenture saw its revenues from BPO expand dramatically, based on blending consulting, systems integration and BPO services to deliver successful outcomes for clients, with the result that revenues from outsourcing jumped by 37% in fiscal year 2003.

Commencing in Manila in the mid-1980’s, Accenture was also an early pioneer in setting up OBPO delivery centres in Asia. With the growth in Accenture’s BPO practice from 2003 onwards, Accenture’s operations in India also grew dramatically. Building from 10,000 staff in India in 2004, Accenture now has 130,000 staff in India making a major contribution to the cost-effectiveness of its global delivery model.

Process-Led Transformation (PLT) is Accenture’s holistic approach to delivering managed OBPO services to clients. Accenture considers that its BPO value proposition is based on wide and successful experience in delivering and sustaining business process transformation.

Accenture’s PLT OBPO delivery is enabled by:

- a. A hybrid engagement model which combines both onshore and offshore resource components, thus leading to greater cost effectiveness;



- b. A rigorous phased approach to mobilisation to enable a smooth transition of business processes and adoption of a Service Level Agreement (SLA) driven model;
- c. Multi-tier governance and reporting mechanisms which helps to ensure performance measurement and outcome delivery on a continuous basis.

Accenture leverages its worldwide network of more than 5,000 business process aligned practitioners and 1,200 Business Process Management experts to deliver effective OBPO across every global region.

Accenture also offers a variety of commercial models for conducting OBPO, including payment per transaction, outcome-driven, fixed price and build-operate transfer approaches. Accenture considers that its commercial approach enables commercial and contractual arrangements to match the needs of each specific client, with commercial and contractual arrangements aligned with the client's strategic objectives, level of prior experience and capability with BPO-led transformation.

However, BPO-driven transformations are highly complex for both customer-facing staff and the program delivery team as success requires a transition to new business processes, technology and job roles. Accenture reports statistics that across the whole industry, OBPO transformation projects are over budget 41% of the time and delivered behind schedule 29% of the time.

### **5.11.3 Application of Accenture's OBPO global delivery model to Telstra's SDF program**

Accenture's involvement in Telstra's Service Delivery Framework program (SDF) demonstrated each of the strengths of their PLT methodology. A hybrid engagement model involving Accenture staff and resources in Melbourne, Australia, Italy and India enabled both rapid cycle time and cost-effectiveness for Telstra, and was managed so that the location of resources was not an issue that impacted the client Telstra (i.e. "opaque indifference" was established).

Multi-tier governance was established, including with Telstra's CEO Leadership Team, and regular reporting did facilitate development of new capability in Telstra, smooth re-engineering of processes and transition to a new operating model with prompt realisation of business benefits. Hence, Accenture delivered transformational outsourcing and lived up to its brand promise of "High Performance. Delivered".

Through the SDF program (which was one of several transformation projects that it was simultaneously delivering for Telstra), Accenture maintained effective collaborative

relationships with Telstra's senior leadership team. This enabled many challenging problems to be quickly resolved and also facilitated removal of blockers and obstacles.

Accenture's multi-tier governance structure for the SDF program meant that there was a centralised interaction structure between supplier and client, and channelized interfaces (Wiesinger, Beimborn & Weitzel, 2012) between Accenture and Telstra. It was clear to both parties' senior management team that Accenture was able to bring organisational learning from broadly comparable SDF programs that it had recently conducted with European telcos, and that channelized interfaces enabled Telstra to quickly capture and disseminate that valuable learning.

However, channelized interfaces did not build trust with Telstra's middle managers and front line staff who felt that they were "out of the communications loop" and that their efforts to contribute to the success of the project were ignored. This channelized approach (characterised by a preference for single points of contact) made it more difficult for interaction structures in Telstra's SDF to adjust dynamically in order to facilitate contextual knowledge exchange within and between the two organisations (Wiesinger et al., 2012). More direct communications with Telstra middle management and front line staff (denser interaction structures) would have resulted in more effective transfer of tacit knowledge and would have reduced tensions in the SDF program.

#### **5.11.4 Accenture key strengths and opportunities**

Accenture's key strengths as a global supplier of OBPO includes its track record of successful delivery over three decades, its global scale and reach and its large workforces in India and the Philippines that contribute cost-effectiveness. Through three decades of OBPO success, Accenture has built effective collaborative relationships with senior management teams in many of the world's largest and most successful companies. This provides Accenture with unequalled access in seeking out new business and technology opportunities. It has also enabled Accenture to capture very substantial organisational learning regarding OBPO, and to disseminate this knowledge effectively to global clients.

Accenture has very clear brand differentiation in that it is positioned as the global leader in delivering transformational outsourcing and hence does not need to concern itself with (for example) competing against its client companies' captive BPO operations.

Accenture considers that its key strengths in performing OBPO is that it is able to bring together core capabilities in the following areas:

- Technology

- Talent
- Strategic value through transformational outsourcing
- Relationship management
- Leadership

By combining these core capabilities, Accenture considers that the impact of each of the individual capabilities is multiplied to deliver high performing BPO outcomes. It also considers that it brings to OBPO a partnering attitude that is a core aspect of the Accenture culture and a collaborative mindset.

## **5.12 CHAPTER SUMMARY**

This Chapter has provided a description and analysis of each of the longitudinal case studies that were conducted as part of this research. The longitudinal case studies are comprised of five client company case studies and three similar case studies of OBPO suppliers. Refer to table 5.1 for a summary of each of these cases. Section 5.2 outlines the approach adopted to conducting the case studies, and to gathering and analysing the data, with the primary unit of analysis being the company and the relationship between the client company and its main OBPO supplier.

Section 5.3 provides a summary of the strategy adopted in selecting the cases and the framework used to begin constructing theory on the basis of the data that had been collected. From section 5.4 through to section 5.8, each of the client company cases are presented and analysed, utilising a structured analysis of OBPO critical success factors derived from figure 3.1 and table 3.3 in Chapter Three (Research Framework). This is followed by similar analysis of each of the OBPO supplier cases in section 5.9 through to section 5.11.

The following Chapter Six provides details of how qualitative data that was gathered in the longitudinal case studies was used to evaluate a series of propositions that provided support for the OBPO critical success factors model. Chapter Six also presents the cross-case analysis which provides a foundation for the final Chapter Seven in which the research questions are answered, conclusions drawn and the contribution of this research is summarised.

## **CHAPTER 6      CROSS CASE ANALYSIS and RESEARCH OUTCOMES**

### **6.1      INTRODUCTION**

The purpose of this Chapter is to provide an analysis of the data that was gathered in the longitudinal case studies, and to evaluate the extent to which this data provides support for the proposed Critical Success Factors model for conducting successful OBPO (refer to Chapter Three, section 3.4 for a more detailed discussion). While Chapter Five focuses on a summary and analysis of each of the individual case studies, this Chapter Six focuses on testing the propositions that were developed as part of the research framework presented in Chapter Three, and drawing research conclusions based on cross-case analysis. It also enables research gaps to be addressed and research outcomes presented.

This Chapter is divided into the following sections, and the analysis and discussion of data gathered in the case studies builds progressively from the individual propositions through to the overarching critical success factors framework.

Firstly, each of the propositions that were developed in Chapter Three is tested against the data gathered in the longitudinal case studies. This is done through a series of salience tables which are explained in section 6.2 below, with the results first presented in the tables, and then findings from each table discussed. The salience tables enable each of the propositions identified in the research framework (refer to Chapter Three) to be tested against data from the relevant case studies. Once the propositions have been tested and initial conclusions drawn, analysis can then be conducted on each of the potential Critical Success Factors (CSF).

The analysis and discussion of the individual CSF occurs in Section 6.3 which includes a review of the data for each of the twelve individual factors that are incorporated in the OBPO critical success factors model. This is followed by a discussion in section 6.4 of the application in practice of the Critical Success factors model and the findings and research outcomes emerging from the case study data. In section 6.4 the discussion focuses on the CSF framework in its entirety, including which CSF may be the most important, and how decisions about the various CSF should be made in unison. Section 6.5 provides analysis and discussion of the value proposition for OBPO captive centres, which is a significant gap addressed in this research. Section 6.6 presents the cross-case analysis and then follows a chapter summary in Section 6.7 which in turn leads into the final Chapter Seven where conclusions, contribution, limitations and directions for future research are each discussed.

## 6.2 PROPOSITION TESTING AND DISCUSSION

As was explained in Chapter Four (Research Methods), the case studies were analysed using qualitative methods aimed at deriving generalisations from the data gathered in these longitudinal case studies. In order to validate the Critical Success Factors model for conducting successful OBPO, the propositions were tested in three “clusters”, corresponding to table 3.1 in Chapter Three, which is reproduced below as table 6.1.

These three clusters can be summarised as follows:

- i. Client companies’ motivations and objectives for conducting OBPO;
- ii. Structural and strategic choices available to management (i.e. actions and decisions that increase the prospects of OBPO success);
- iii. OBPO operational success factors, and management practices to maximise business benefits by learning and adapting from OBPO experience.

The data gathered during the case studies was coded, as described in Chapter Four section 4.6.1, and then analysed to test the propositions that were developed in Chapter Three, as summarised below in table 6.1 which shows the grouping of propositions by each of the critical success factors:

**Table 6.1 Arrangement of propositions by Critical Success Factor (CSF)**

Cluster	Overall logical framework	Relevant critical success factors from table 3.3	Proposition numbers relevant to these CSF	Research questions addressed
1	Companies’ OBPO success criteria	CSF 1, 2, 10, 12	P1-7, P32-33 [total 9 ]	Secondary research question 5
2	OBPO structural and strategic choices available to managers	CSF 3, 4, 5, 7	P8-13, P18-20 [total 9]	Primary research question
3	OBPO operational success factors	CSF 6, 8, 9, 11, 12	P14-17, P21—31 [total 15]	Primary research question

The first step in the analysis was to determine if data gathered in the case studies directly contradicted any of the propositions. No such contradictions could be found, and to a greater or lesser extent, the case study data appeared to broadly confirm the propositions both at the level of single factors, and also in terms of inter-relationships in the Critical Success Factors (CSF) model.

As part of the analysis of data and testing of propositions, case studies were examined for evidence of direct quotations from interview subjects that provided strong confirmation of the importance of single factors, and of relationships within the single factors.

For example, the following quotes from former British Airways CEO Rod Eddington appear to provide support for both propositions 1 and 7, with key points that were interpreted as demonstrating support for these propositions underlined.

**Quotation 1: Analysing British Airways motivation and objectives for OBPO.**

*Was the offshore BPO really just about cost reduction, especially during “Future Size and Shape”?*

“No definitely not just about cost reduction, although as I have mentioned cost reduction was (and continues to be) an absolutely fundamental business driver for BA.

Two key benefits were cycle time reduction (we couldn’t have moved as fast or as effectively with Future Size & Shape without the capability that we obtained from offshore delivery) and also productivity improvement. There are many aspects to productivity improvement but part of it was the quality of ideas and innovation that we developed in conjunction with the offshore partners.

As I have mentioned before, the offshore BPO/ITO strategy was about getting access to the right intellectual capital at the right price, and leveraging the knowledge and insights that our partners had developed in IT-intensive processes in the airline industry.”

*Analysis of the above data:*

Provides strong support for proposition 7, to the effect that an initial area of focus in OBPO was cost reduction, and that over time BA also sought strategic benefits from OBPO.

**Quotation 2: Analysing alignment between OBPO strategy and overall company strategy**

*What do you think are some of the key success factors in managing an offshore BPO strategy?*

“Well one thing is for sure, you need to work at it really hard. I think a key success factor is ensuring that the leadership team in the offshore centre has absolute clarity in what is expected of them, what they have to deliver and how

their work is aligned with the fundamental drivers of the business. And to achieve this is hard work, but it is also hard work with other groups of employees as well.

Also, you need to have a relentless focus on taking costs out of the business and that means simplification (i.e. process improvement) and you can never declare victory because it's never over."

*Analysis of the above data:*

Provides strong support for proposition 1, that successful OBPO requires that managers evolve relationships with OBPO service providers, and related governance structures, to ensure that OBPO strategy is aligned with overall firm strategy.

### **Quotations 3 and 4: Regular review and evolution of OBPO strategy and choice of location**

Quotation 3

*Are there any aspects of the IT and BP outsourcing strategy that you think could have been done differently, or could have achieved better results?*

"With hindsight, I think that we got most of the large pieces of the offshoring strategy right. We were learning as we went along. I want to emphasise that we did not have a top-down and clear cut offshoring strategy planned out years in advance. The key business driver was to simplify and automate our business which meant getting access to the right intellectual capital at the right price wherever on the globe this was located."

Quotation 4

*Did you conduct regular evaluations of locations other than India as potential destinations for offshore BPO?*

I would say that we fairly regularly asked ourselves the question as to where we could locate the best intellectual capital in the world at the best price, and since part of the turnaround at BA in the period 2001-2005 was deployment of IT-enhanced solutions then we needed to locate that type of skill. And throughout that period, I think we were convinced that India had a lot to offer and was our preferred location.

*Analysis of the above data*

Provides strong support for proposition 33, that companies that succeed with OBPO will develop processes for regular review and evolution of their OBPO strategy, and also for

proposition 2, that companies will capture and disseminate organisational learning and build capabilities associated with OBPO, and for proposition 19, that India has a sustainable competitive advantage as an OBPO destination for knowledge-intensive activities.

### **6.2.1 Salience tables and testing each of the clusters of propositions**

The overall or combined rating for the five client case studies is presented in the form of salience tables (salience is defined as the importance or significance of each factor in each particular case). Each proposition is given the salience rating of High, Medium or Low, representing a 3-point scale for the extent to which data gathered in a specific case supported a particular proposition. In reviewing the case study data, if one statement per proposition was found explicitly confirming that proposition then the salience rating was “low” or L; if there were at least two statements confirming the proposition then salience rating was “medium” or M, and if three or more statements were found confirming the proposition then salience rating was ‘high” or H. As a second step in the analysis, to allow cross-case comparisons, each of the supplier cases was also given an overall rating for each of the “clusters” of propositions.

In regard to the individual Critical Success Factors, if cross-case comparisons found that three or more cases provided High support for that factor then it was deemed to have been verified.

The approach to testing the propositions was that a salience table was first constructed for each cluster, as is illustrated below in tables 6.2 to 6.5 below (i.e. **four** salience tables are presented). The data in each of the Salience tables was used to draw broad conclusions about the propositions covered in that table. These conclusions are presented below immediately prior to the Salience table to which they apply. Each of the Salience tables is followed by a more detailed discussion about cross-case comparisons and confirmation of individual Critical Success Factors.

Four salience tables are presented because cluster one, which addresses companies’ motivations and objectives has been split into two parts for the purpose of analysis of the proposition. Ensuring alignment of OBPO strategy with broader company strategy is considered of such fundamental importance that it warrants its own salience table which is presented as table 6.2. The salience table for the second part of cluster one, dealing with client companies’ motivation and success criteria for OBPO, is presented in table 6.3.

**Cluster one (part one) conclusions on alignment of OBPO strategy with company strategy:**



Four of the cases demonstrated strong alignment between OBPO strategy and overall company strategy. Hence, CSF 1 was deemed to be confirmed. Organisational learning was found to be a strong enabler in three of the cases and a medium enabler in a fourth client company case, so its importance was also confirmed. Data gathered in the case study on Telstra demonstrated that alignment between OBPO strategy and overall company strategy was not as strong as the other cases, and subsequently, Telstra changed its OBPO strategy to strengthen alignment.

**Table 6.2 Salience table for alignment of OBPO strategy with overall company strategy**

Prop. No.	Description of proposition	IORAM	REPCOL	ANZ	BA	Telstra
1	Ensure that OBPO strategy is aligned with firm strategy	H	H	H	H	L
2	Capture and disseminate organisational learning and build company capabilities associated with OBPO	H	M	H	H	L/M

#### **Discussion:**

In each of the five client company case studies, data suggested that client company management teams were making significant efforts to align OBPO strategy with overall company strategy. Telstra was unable to achieve a high degree of alignment, primarily due to a misalignment between the intentions of senior management and the behaviour of middle management, with the latter being influenced by tactical rather than strategic considerations. That an internal misalignment occurred also illustrates the difficulties of relationship management in OBPO involving knowledge-intensive services being conducted through arms-length contracts in that most of the service provider's relationship-building investment was directed towards Telstra senior management rather than also encompassing middle management. Had a captive governance mode been adopted in Telstra's case, it would almost certainly have been easier to achieve alignment with Telstra's middle managers, and Telstra subsequently changed its OBPO strategy to establish a hybrid captive as well as continuing with a portfolio of arms-length contracts for some carefully selected aspects of OBPO.

Data gathered in the Telstra-Accenture case study provides strong support for the views advanced by Willcocks and Griffiths (2012) regarding the importance of middle management in OBPO. In particular, the Telstra case study confirms the need for middle managers to define and deliver on business requirements, ensure that organisational capability exists to realise business benefits from OBPO and to facilitate problem-solving.

The data also illustrates that small and medium enterprises (i.e. IORAM and REPCOL) faced some difficulties in maintaining alignment between OBPO strategy and overall strategy. These difficulties arose because of the need for rapid changes in company strategy due to unforeseen changes in their external environment. A key strength of Small and Medium Enterprises (SME) is their ability to be nimble and adaptive when changes are required in overall strategy. However, to take maximum advantage of investments in OBPO captive centres requires a certain degree of persistent commitment and stability in OBPO strategy, and this was easier for larger companies such as British Airways and ANZ Bank to achieve.

#### **Cluster one (part two) conclusions on success criteria for OBPO**

In all five of the cases studied, interviewees reported that cost savings were an important motivator for OBPO. On the other hand, it was also the case that client companies had additional motivations for OBPO that went beyond cost savings, with removing skills shortages/bottlenecks and improving project/process cycle time being common to all of the cases. In all client company cases, interviewees reported clear definitions of “what success looked like” for OBPO, and were also convinced that key objectives from OBPO such as cost reduction were sustainable over the next 5-10 years.

The case studies provided the opportunity to gather and analyse detailed data on cost reductions being achieved from OBPO and also on the technical service quality being delivered. Strong confirmation was found for cost reductions of at least 40% - 50% for comparable BPO outcomes, and the overwhelming majority of data also confirmed high levels of technical service quality.

Propositions 3-7 relating to client companies’ definition of success from OBPO were therefore each found to be confirmed, as was proposition 32 (culturally agile managers who can provide boundary spanning capability) and proposition 33 (regular reviews of OBPO strategy).

**Table 6.3 Salience table for Companies' success criteria for OBPO**

<b>Prop. No.</b>	<b>Description of proposition</b>	<b>IORAM</b>	<b>REPCOL</b>	<b>ANZ</b>	<b>BA</b>	<b>Telstra</b>
3	Clear definition of success	High (H)	High (H)	High (H)	High (H)	Medium (M)
4	Cost reduction/productivity improvement	H	H	H	H	H
5	Cost savings from OBPO sustainable over 5 -10 years	M	M	H	H	L
6	Technical service quality will meet expectations for improved service levels	H	H	H	H	L
7	Companies will seek strategic benefits from OBPO	H	H	H	H	L
32	Successful OBPO requires the presence of an adequate number of "culturally agile" managers in both client and supplier.	H	H	H	H	H
33	Companies that succeed with OBPO will develop processes for regular review of the OBPO strategy	M	M	H	H	M

**Discussion:**

Some individual exceptions were found to the generally high levels of technical service quality. These exceptions typically arose from business processes that involved a high degree of interaction between OBPO service provider personnel and the end customers of client companies. Effective execution required in-depth knowledge of business context in the client companies' home markets and empathy with the specific circumstances being experienced by end customers. Circumstances where there was a lower degree of perceived technical service quality typically involved a failure to establish "opaque indifference" with end customers (Wreford, Penter, Pervan & Davidson, 2012).

The exceptions referred to above demonstrate the importance of careful selection of business processes that are suitable for OBPO (i.e. proposition 9). As is discussed further below in reference to table 6.4, of the client company cases, ANZ, British Airways and REPCOL gave the most careful consideration to selection of processes that were suitable for OBPO, and Telstra probably gave the least consideration to this factor (at least initially).

### Cluster two conclusions on OBPO structural and strategic choices:

This series of propositions looked at structural and strategic choices that are required to be made by managers implementing OBPO strategy. High levels of senior management engagement was consistent across each of the supplier cases.

In the four client cases that involved OBPO captive centres, there was strong evidence of careful selection of business processes, and the choice of engagement option (i.e. captive) was influenced by the knowledge-intensive nature of the activities. Hence there was confirmation in table 6.4 of the importance of CSF 3 (senior management commitment and perseverance), 4 (selection of business processes for OBPO) 5 (selection of engagement model) and 7 (location choice), each of which is discussed in more detail in section 6.3 below.

Telstra proved to be an outlier in terms of engagement model as it was operating under an arms-length contracting model, although it subsequently adopted a hybrid captive model. Refer to section 6.5 below for a more detailed discussion of the value proposition offered by OBPO captive centres and to section 6.6 for cross-case analysis and comparisons.

**Table 6.4 Salience table for OBPO structural and strategic choices available to managers**

Prop. No.	Description of proposition	IORAM	REPCOL	ANZ	BA	Telstra
8	Senior management engagement and quality of relationships between senior managers in client and OBPO service provider.	H	H	H	H	M
9	Careful selection of business processes for OBPO.	H	H	H	H	L
10	Type of engagement option will be influenced by nature of the OBPO activities (e.g. knowledge-intensive services).	H	H	H	H	L
11	Adoption of a captive model will be the preferred option for services classified as knowledge-intensive services.	H	H	H	H	M/H
12	Key risk factors associated with managing captive operations will be high staff turnover in the captive centre.	H	H	H	H	H
13	Relationship quality (especially both firms)	n/a	n/a	M	H	M

	demonstrating trustworthiness) is a key success factor in OBPO managed through arms-length contracts.					
18	Choice of OBPO location will be influenced by country-attractiveness factors, previous company experience in OBPO and characteristics of the processes selected for OBPO.	H	H	H	H	H
19	India has a sustainable competitive advantage as an OBPO destination for knowledge-intensive activities for at least the next 10 years.	H	H	H	H	H
20	The Philippines also offers significant advantages as an OBPO location for client companies from English-speaking countries.	n/a	n/a	H	n/a	H

### Discussion:

As well as selection of business processes and choice of OBPO engagement model, decisions about location are also of critical structural and strategic importance. A number of researchers including Mudambi and Verzin (2010) and Gerbl et al., (2016) have argued that choice of location for OBPO is a particularly complex decision, and that it should be made simultaneously with selection of business processes and engagement model. Other researchers have reported that choice of location can be influenced by a client company's previous OBPO experience (Pisani & Ricart, 2016; Mihalache & Mihalache, 2016). The data gathered in the case studies suggested that previous experience was influential, but the four case studies involving captive operations essentially made location decisions on the basis of selection of cities rather than countries. Hence, the data provided support for the views of Manning et al. (2017) regarding the importance of "knowledge service clusters".

Regarding selection of countries as OBPO destinations, interview subjects expressed the view that for client companies from English-speaking home countries, both India and the Philippines offered significant advantages (especially labour cost arbitrage and demographic advantages) that were likely to be sustainable for at least 5-10 years.

### Cluster three conclusions on OBPO operational success factors:

This salience table 6.5 is primarily concerned with propositions that related to OBPO operational (or implementation) success factors. In practice in the client case studies, a number of these factors were seen to be interrelated. For example, the success of knowledge

management strategies was linked to governance arrangements between the client company and its OBPO service provider, and these two factors also influenced arrangements for transition of business processes to the OBPO service provider and reintegration of OBPO outputs back into the client company.

The client case studies each demonstrated effective knowledge management which was more informal in the two small and medium enterprise case studies involving IORAM and REPCOL. There was also evidence in each of the client case studies of effective arrangements for governance, transition of business processes and agreement on decision rights being transferred to the OBPO service provider. Taken together, each of these operational CSF contribute to higher levels of collaboration effectiveness which is a catalyst for OBPO success. The Telstra-Accenture case was something of an outlier in terms of collaboration effectiveness, due to a misalignment in Telstra between middle and senior management in terms of allocation of decision rights to the OBPO supplier Accenture that had been engaged through arms-length contracting.

Each of the case studies demonstrated careful attention to OBPO risk management, and there was no evidence of any complacency in this respect. Common risk issues across each of the case studies included high rates of staff attrition in the OBPO service provider, and retaining culturally agile middle and senior managers. There was also a recognition in each of the client companies that OBPO involving knowledge-intensive services created a potential risk of “hollowing out” of internal capabilities and hence loss of strategic agility. This concern was a significant influence on the choice of captive engagement model in four of the client case studies.

**Table 6.5 Salience table for OBPO operational success factors**

<b>Prop. No.</b>	<b>Description of proposition</b>	<b>IORAM</b>	<b>REPCOL</b>	<b>ANZ</b>	<b>BA</b>	<b>Telstra</b>
14	Successful OBPO requires a formal knowledge management strategy	M	M	H	H	L
15	Management of OBPO that involves significant levels of end customer contact and high levels of domain knowledge will require greater commitment to knowledge management.	H	H	H	H	L
16	For knowledge-intensive services, a captive governance mode will be more effective than arms-length contracting	M	H	H	H	L
17	Culturally-agile or boundary spanning managers will play a significant role in successful knowledge transfer	H	H	H	H	H
21	Companies that succeed with OBPO will have a defined and proactive approach to managing risk associated with these activities.	H	H	H	H	L
22	Effective organisational learning and transfer of knowledge to key managers is required for successful OBPO	H	H	H	H	H
23	Risk profiles vary depending upon the engagement model selected for OBPO (see also CSF 5)	H	H	H	H	H
24	Key risk factors for OBPO include high rates of staff attrition (e.g. 25% - 30%) in the OBPO service provider and retaining senior managers capable of boundary-spanning (see also CSF 11 on cultural agility)	H	H	H	H	H
25	Successful OBPO requires a transition plan for business processes that are being disaggregated and transferred to an OBPO service provider.	H	H	H	H	H
26	Successful OBPO requires effective, formal governance	H	H	H	H	H

	arrangements involving senior management representatives of client and service provider.					
27	Governance arrangements will establish clear objectives and metrics and implement a Performance Management System.	H	H	H	H	H
28	Successful OBPO requires strong communications and alignment mechanisms. In the case of an arms-length contract, relationship quality and trust are critical success factors.	H	H	H	H	M
29	Successful OBPO requires that client and supplier agree upon the transfer of well codified decision rights.	H	H	H	H	M
30	Realistic expectations are required about the high level of senior management commitment and time required to derive significant business benefits from OBPO.	H	H	H	H	H
31	Time required to achieve forecast cost savings will be lower in the case of OBPO conducted through an arms-length contract than OBPO conducted through a captive centre.	L	M	H	L	H
33	Successful OBPO requires the presence of an adequate number of “culturally agile” managers in both client and supplier.	H	H	H	H	H

### Discussion:

This salience table 6.5 addressed Critical Success Factors 6 (Knowledge Management), 8 (Risk Management), 9 (Transition plan and governance), 10 (realistic expectations about time required for business benefits realisation) and 11 (culturally agile managers), as these are regarded as factors that contribute to operational success with OBPO. The data gathered in the case studies showed a high degree of consistent support for the importance of each of these five CSF, with the only variance being shown on knowledge management where the Telstra-Accenture case was something of an “outlier” because the two parties were unable to agree at



middle management level on transfer of decision rights to Accenture and on how knowledge should be managed.

A number of authors (see for example Hutzschenreuter et al., 2011b; Jensen et al., 2013; Gerbl et al., 2016) have observed that the more experience a firm has the less time is required to achieve cost savings from OBPO and the targeted service level. Data gathered in the case studies conducted in this research does not support these views. A number of the interview subjects who participated in this research suggested that significant senior management level commitment and sheer hard work was required to achieve OBPO success, which appeared to depend less on previous experience and more on the speed of organisational learning and the extent to which such learning could be captured and disseminated to relevant managers.

Data gathered in the client case studies showed that British Airways, IORAM and REPCOL were able to mobilise quickly in OBPO, establish captive operations and quickly begin to achieve business benefits. Their success appeared to depend less on previous OBPO experience (which all things being equal is certainly helpful), and more on senior management commitment and execution of the operational success factors highlighted in this salience table.

The client and supplier case studies all provided strong and unanimous support for the importance of a cadre of culturally agile managers who could provide boundary spanning capabilities and reduce “perceived distance” between client companies and OBPO suppliers (Aubert, Rivard & Templier, 2011). When culturally agile managers were in leadership or CEO roles their effectiveness was amplified.

### **6.3 DISCUSSION OF THE INDIVIDUAL FACTORS IN THE CSF MODEL**

The purpose of this section is to present the conclusions obtained from the qualitative data that have enabled the importance of each of the twelve Critical Success Factors to be verified, and also to highlight insights into each of the CSF that arise from comparisons across the cases. In the sections below, each subsection deals respectively and individually with each of the 12 CSF. Having discussed in section 6.3 the individual CSF and the interrelationships between each, section 6.4 then discusses the application of the overall CSF framework.

#### **6.3.1 Align OBPO strategy with overall firm strategy (P1 & P2)**

In each of the client case studies, the data showed that there was considerable management effort directed towards achieving alignment between OBPO strategy and overall company strategy, and at times, to change OBPO strategy when there were changes in the external competitive environment and/or change in company strategy. The BA and ANZ cases

demonstrated that alignment was particularly effective, and that it was sustained over significant periods of time (years), even while in the case of BA there were significant changes in both OBPO and company-level strategy.

The supplier case studies also confirmed strong support for this critical success factor, which has emerged as one of the most important of all of the CSFs. For OBPO activities classified as knowledge-intensive services, the case study data suggested that it is easier to achieve alignment when a captive engagement model is adopted.

### **6.3.2 Definition of success for OBPO (P3 – P7)**

In each of the client case studies, it was observed that senior management had endorsed clear objectives and key performance indicators for OBPO activities, and that the OBPO business success model presented in Chapter One, figure 1.1 (and explained in detail in Chapter Three, section 3.3) was a good fit in general terms for each case study, noting that OBPO success will be specific to each individual client company's business context.

Data in the case studies enabled strong confirmation that cost savings of 40% - 50% were being obtained on a consistent and sustained basis from OBPO, which provides insight as to why a successful OBPO strategy is an imperative for client company management. The case study data also confirmed that each client company had OBPO objectives that went beyond cost savings, with cycle time reduction and addressing skills shortages and bottlenecks being additional goals in each of the cases.

### **6.3.3 Senior management commitment and perseverance (P8)**

Data gathered in each of the five client case studies and also in the three OBPO supplier cases provided strong evidence regarding the importance of senior management engagement and of the quality of relationships between senior managers in client companies and their respective service providers (which in four cases was a captive centre).

In confirming the importance of senior management commitment and perseverance as an OBPO success factor, this research provides strong support for the outcomes reported by Lacity and Willcocks (2017) who identified the critical importance of leadership pairs who could resolve conflicts and challenges in a constructive and collaborative manner.

Senior management engagement was also observed to be of critical importance in ensuring that CSF 12 (regular reviews of OBPO strategy and consideration of "next generation" OBPO options) took place at appropriate intervals.

Some of the difficulties that were encountered in the Telstra client case occurred because senior management, having set the parameters at the start of the particular SDF initiative and having confidence in the OBPO service provider Accenture, had transferred their attention to other unrelated issues. Hence, conflicts arising at middle management levels (e.g. over which party had decision rights on certain operational matters) were not promptly and collaboratively resolved, and Telstra was slower to review and regenerate its OBPO strategy, to the extent that OBPO strategy for a period of time became misaligned from Telstra's overarching company strategy.

#### **6.3.4 Selection of business processes for OBPO (P9)**

Noting an increasing trend towards OBPO involving knowledge-intensive services, Gerbl et al. (2016) argue that business process characteristics, such as the level of contact with end customers together with process complexity, extent to which there is a requirement for customisation and the potential for codification of the process, should be taken into account in making decisions about whether a business process is suitable for OBPO. In four of the client case studies in this research, the data indicated that senior management had given careful attention to these factors in determining which processes were suitable for OBPO. Moreover, both British Airways and ANZ Bank (which had the largest range of business processes to consider) were careful, systematic and incremental in transferring business processes to their OBPO service provider.

Initially, Telstra did not apply the same level of scrutiny to individual processes being transferred to OBPO service providers. While it was able to realise significant cost reductions from OBPO, it found that end customer satisfaction suffered in the case of some processes where technical service quality was perceived by end customers to be lower, and Telstra's customer satisfaction targets were negatively impacted. Telstra subsequently reviewed its OBPO strategy to transfer these particular customer-sensitive business processes to a hybrid captive centre, and was able to achieve a lift in customer satisfaction ratings.

Both Gerbl et al., (2016) and Jensen et al., (2013) point out that it is more difficult to transfer to OBPO service providers, business processes that are highly customised and have complex interdependencies with other processes. However, these are the characteristics of knowledge-intensive services that also require OBPO staff to exercise discretion in decision-making and apply business judgement rather than apply a set of well-codified rules. For these reasons, it has been argued that knowledge-intensive processes may best be managed through an OBPO captive centre (Tate et al., 2009; Hutzschenreuter et al., 2011; Gerbl et al., 2016). This is

discussed further below in section 6.3.5 immediately below, and also in section 6.5 below which analyses the value proposition offered by captive centres.

The data from the case studies confirms that selection of business processes is both a critical success factor in its own right, and also exerts significant influence on each of CSF 5 (selection of engagement model), CSF 6 (knowledge management) and CSF 7 (choice of location).

### **6.3.5 Selection of OBPO engagement model (P10 - P13)**

Selection of engagement model was shown by the client case studies to be heavily influenced by the nature of the business processes selected by the client company for OBPO, and influenced by the regulatory environment in which the client companies were operating. Four of the five client companies initially selected a captive engagement model, primarily because they wished to exercise control over OBPO activities. The fifth client case study (Telstra) initially selected arms-length contracting as its OBPO engagement model but subsequently transitioned to a hybrid captive, again in order to obtain more control over OBPO activities that were negatively impacting on end customer satisfaction.

Each of the captive operations also underwent significant change (in one case involving British Airways to a divested captive and arms-length contracting). This illustrates the importance of CSF 12, which is the requirement for regular review and regeneration of OBPO strategy.

For OBPO involving activities classified as knowledge-intensive services, the discussion of captive centre value proposition in section 6.5 below shows that captive centres offer a number of advantages, and the data in the case studies confirms that careful selection of engagement model is a critical success factor. Data gathered in the case studies that are reported in this research supports the findings from a quantitative survey reported by Elia et al., (2014) that selection of an OBPO captive model appears to correlate with higher technical service quality.

### **6.3.6 Knowledge management (P14 - P17)**

The importance of knowledge management in successful OBPO was demonstrated in each of the case studies (both client and supplier), as a knowledge management strategy was observed to be present in each of the cases. For OBPO involving knowledge-intensive services, Elia et al. (2015) notes that individual business processes are strongly interdependent and hence more frequent and intense interaction is required with the OBPO service provider. Where OBPO service provider interaction with end customers of the client company is required, complex and often tacit knowledge must be exchanged between the client company and its OBPO

service provider. Such requirements were present to a high degree in each of the client case studies, and effective knowledge management was confirmed as a critical success factor.

Where OBPO involves knowledge-intensive activities, both informal and formal transition and governance activities are likely to be required in order to transfer successfully the high degree of tacit knowledge that must pass to the OBPO service provider. Mihalache and Mihalache (2016) argue that a captive operation may more quickly develop a common understanding of two-way knowledge accumulation and transfer, and may also reduce status differences as referred to by Levina and Vaast (2008).

If the OBPO engagement model is arms-length contracting, formal governance mechanisms will be more important in facilitating effective transition, and will include both contractual and relational governance (Srikanth & Puranam, 2011; Mihalache & Mihalache, 2016). Formal governance mechanisms which addressed knowledge transfer and transition were observed in the Telstra-Accenture case which involved arms-length contracting as the engagement model.

### **6.3.7 Choice of OBPO location (P18 - P20)**

The client company-level decision as to where to relocate business processes offshore has been widely examined in the literature, but several researchers have argued that most published literature on this topic does not adequately recognise the complex interrelationships and decisions that arise when OBPO involves knowledge-intensive services (Mudambi & Venzin, 2010; Gerbl et al., 2016; Pisani & Ricart, 2016). For knowledge-intensive OBPO, Pisani and Ricart (2016) point out that it is not just the size, quality and cost of the available OBPO talent pool that needs to be taken into account in the location choice, but also the knowledge infrastructure and political and other risks associated with potential offshore destinations. A similar view is offered by Manning et al., (2017) who point out that institutional theory offers an underlying explanation for the emergence of knowledge service clusters, whereby the positive experiences of early adopters such as AMEX, GE Capital, British Airways, Microsoft and Motorola have generated trust among fast followers who have moved to the same locations in India and the Philippines. In cities such as Bangalore, Gurgaon and Manila, these trends have acted as a catalyst for the convergence of talent pools, service provider capability and experienced client companies.

Data gathered in the case studies found support for the view put forward by Manning et al. (2017) regarding the emergence of “knowledge service clusters” such as Bangalore, Gurgaon and Manila. For Australian companies, both Bangalore and Manila were found to be convenient in terms of flight access and time zone changes. Detailed data gathered in the case

studies also provided support for the view that India and the Philippines are likely to have sustainable competitive advantage for at least another 5-10 years as OBPO destinations.

This research also found support for the approach to location choice advocated by Gerbl et al., (2015) whereby this decision needs to be viewed as a complex multi-factor optimisation exercise, considering not just advantages of a particular location, but also selection of governance mode, choice of business processes that are suitable for OBPO and also knowledge management. In this respect, choices made by a client company may also create path dependencies (Augustin et al., 2010), and as pointed out by Hutzschenreuter et al., (2011a), one of the risks associated with establishing a captive operation in a particular offshore location is that it may be difficult, time-consuming and costly to change this choice as part of realignment of OBPO strategy at a later date.

### **6.3.8 Risk management (P21 – P24)**

Data gathered in the case studies found evidence of active risk identification and management, with the three financial institutions (ANZ Bank, REPCOL and IORAM) being the most proactive. Each of the four client companies that had selected a captive model did so in large measure because they saw this as less risky than arms-length contracting.

In terms of specific operational risk factors, data gathered in the case studies provided strong evidence that high rates of staff attrition and retaining culturally agile senior managers capable of boundary-spanning were serious and continuing risks to successful OBPO.

British Airways, ANZ Bank and Telstra also identified the potential risk of “hollowing out” of internal capability and organisational knowledge as a result of OBPO, noting that unless client companies retained a certain level of internal capability, there was a risk of OBPO decisions becoming irreversible. Concerns about “hollowing out” of internal capability were significant considerations leading ANZ Bank to maintain an integrated captive OBPO strategy, and influencing Telstra to shift to a hybrid captive engagement model.

### **6.3.9 Transition plans and governance (P25 - P29)**

Even for OBPO activities involving limited complexity and which are highly standardised, Hutzschenreuter et al., (2011b) argue that transferring processes to an offshore location is not trivial, and often takes considerable time and management overhead. According to Hutzschenreuter et al., (2011b), many of the transition difficulties are related to differences in cultural perspectives and in administrative practices between the client company’s home country and the OBPO location. Other researchers (e.g. Jensen et al., (2013) place emphasis

on the difficulties of exchanging tacit knowledge between locations and also the challenge of reintegrating OBPO outputs back into the client company.

ANZ Bank took the approach of moving carefully selected business processes to OTSS in Bangalore on an “as is” basis, and then focused on improving and transforming these processes at OTSS to take out costs, improve efficiency and reach global best practice. As the business processes were generally “owned” by organisational units located in other parts of the world (e.g. Australia, New Zealand, Asia, etc.) developing collaboration efficiency between OTSS and other parts of ANZ Bank was a very high priority, hence the integrated captive strategy.

According to ANZ OTSS former head Fred Bertram:

“We worked hard to break down the mentality that OBPO involved “shipping the problem off to foreign shores”, or “we’ll throw a problem over the wall to those people in Bangalore and see what they make of it”. ANZ had a detailed agenda for achieving transformational gains from OTSS, and that included reducing cycle time and achieving competitive parity with world’s best practice. We knew at OTSS that we had to make improvements that would free up resources elsewhere in the parent company and lower the cost to income ratio, so we had alignment and that enabled a systematic approach to transition and governance. It was also important that leaders such as myself were constantly “selling the Bangalore story” within ANZ”.

In the case studies presented in this research, significant and largely successful effort went into managing the transition of business processes to OBPO locations, and also into promoting the acceptance of OBPO outputs in the parent company. These efforts aimed at improvement in collaboration effectiveness between OBPO partners and empowerment of the service provider, which were witnessed in each of the client case studies, were identified by Levina and Vaast, (2008) as contributing to success in OBPO by moderating the potentially negative consequences of cultural and status differences.

#### **6.3.10 Time required for OBPO benefits realisation (P30 & P31)**

Each of the case studies showed evidence of realistic expectations regarding the time required to deliver business benefits realisation from OBPO. The three supplier case studies provided strong support for the findings of Hutzschenreuter et al., (2011b) that experienced OBPO service providers do have strong capabilities to facilitate a smooth transition and relatively fast cycle time to achieve initial business benefits. On the other hand, when OBPO engagement is conducted through arms-length contracting, there will be significant time spent on search and

contracting activities, such as evaluation of OBPO supplier proposals and negotiation of contracts.

Establishment of OBPO captive centres requires time, investment and management attention. Significant management commitment will be required to recruit, induct and train staff for the captive, to achieve critical mass and to acquire organisational learning about the location at which the captive is operating (Knowledge@Wharton, 2003). If the client company has previous OBPO and country operating experience then time required for business benefits realisation from an OBPO captive centre may be reduced.

The client case studies reported in this research demonstrated that with appropriate senior management commitment and effective marshalling of OBPO prior experience and capability it is possible to fairly quickly establish a successful OBPO captive in a knowledge service cluster such as Bangalore, Gurgaon or Manila. Nevertheless, these cases also demonstrated that there are significant coordination challenges and much hard work required, so a realistic expectation regarding time and phasing required for business benefits realisation is a critical success factor.

#### **6.3.11 Emergence of a cadre of culturally agile managers (P32)**

Evidence was found in all of the case studies of both the importance of this factor, and also of its emergence in each of the cases. The three supplier cases demonstrated strongest evidence of the presence of a cadre of culturally agile managers, and this appeared to be a significant value added offered by these OBPO supplier companies.

In the five client company cases, BA appeared to be the most adept at this factor, perhaps because it had been flying to India for more than 70 years and clearly had built up a strong degree of understanding and affiliation. The two small and medium enterprises (REPCOL and IORAM) were able to respond rapidly to this factor, with their respective CEOs demonstrating a strong understanding and affinity for this factor, and other individual managers quickly emerging to follow the CEOs' examples. The senior leadership in the IORAM and REPCOL cases took effective action to clarify decision rights of the captive centres and to reduce or eliminate any status differences between staff in the parent company and those in their captive centres. ANZ Bank proactively worked on the development of a cadre of culturally agile managers and were able to report significant success in this respect.

Telstra was slowest to make progress with this factor, because it was operating through arms-length contracts (until a change in strategy occurred in 2009) so saw less need for this factor, which in the opinion of this author was a mistake. Also absent from the Telstra case were two



management practices, boundary spanning and empowerment of the OBPO delivery partner, which were identified by Levina and Vaast (2008) as contributing to success in OBPO.

### **6.3.12 Reflection and regeneration (P33)**

As was noted in quotation 4 above from the former CEO of British Airways, to the effect that:

“I would say that we fairly regularly asked ourselves the question as to where we could locate the best intellectual capital in the world at the best price ...”

Each of the case studies provided data that showed a willingness to review key performance indicators at regular intervals and to assess whether there were “next generation” options that would maximise opportunities for business benefits realisation and value creation from their OBPO activities. These regular reviews eventually led BA to divest their captive centre and form an arms-length contracting relationship with WNS, whereas ANZ Bank conducted similar reviews and took decisions to expand significantly the scale of their OBPO captive operations and diversify the locations to include Chengdu and Manila as well as continuing to increase scale and scope in Bangalore.

Telstra also reflected upon its options for its OBPO activities and took the decision in 2009 to transition from purely conducting OBPO via arms-length contracting to also develop a hybrid captive in collaboration with two of its OBPO service providers.

### **6.3.13 Influence sources on senior management (P34 & P35)**

Institutional influences were found to be moderate on the basis of data collected in the case studies. The five client company case studies showed only limited imitative behaviour by senior management, with the exception of IORAM which adopted an OBPO strategy after being influenced by the success of an Australian small and medium enterprise in which it had made an earlier investment. IORAM senior management was quite clear that as a relatively new company they were seeking legitimacy by rapidly imitating what they considered to be a successful model that they had observed.

Some degree of coercive influence by regulators was evident in the ANZ Bank, IORAM and REPCOL cases in that each client company was of the view that selection of the captive engagement model was essential in order to demonstrate to their common financial industry regulator the Australian Prudential Regulatory Authority (APRA) that they retained full control over their OBPO transactions.

ANZ Bank, BA and Telstra demonstrated some degree of coercive influence by end customers. As noted in section 6.3.4 above, ANZ Bank and BA were very careful in their selection of which processes were suitable for OBPO because both were concerned about the possibility of adverse reaction from customers. Telstra initially was less concerned, but subsequently found that it needed to change its OBPO strategy because some of the outsourced processes were receiving very low customer service ratings, at a time when its overall company strategy placed strong emphasis on competing on the basis of improved customer service standards.

#### **6.3.14 Organisational learning (P2)**

The cases demonstrated that organisational learning is an important enabler for successful management of OBPO. Not surprisingly, organisational learning was observed to be most rapid (although not necessarily most effective) in the two smaller organisations (REPCOL and IORAM). In the two smaller organisations, senior management leadership and commitment was noticeable and effective, and this contributed strongly to organisational learning. However, in these smaller companies, rapid changes in strategic direction occurred and was accompanied by changes in key personnel, and this level of volatility rendered organisational learning less effective.

British Airways and ANZ Bank demonstrated strong commitment to capturing and disseminating organisational learning on OBPO, which included systematically promoting the use of their OBPO captive centres across their respective organisations. The policy in BA of rotating senior managers through the WNS captive centre appeared to be a particularly effective strategy while ANZ relied more heavily on energetic and charismatic leadership from OTSS.

Perhaps due to misalignment between senior and middle management, Telstra's organisational learning appeared to be less effective.

The supplier case studies demonstrated very strong attention and capability for rapid organisational learning, which appears to be a strong value proposition that these suppliers are able to offer client companies.

### **6.4 APPLICATION OF THE CRITICAL SUCCESS FACTORS MODEL**

The analysis of propositions that is reported in section 6.3 finds support for each of the individual factors in the Critical Success Factors framework, and also for the interrelationships between factors. However, this in turn presents a range of other considerations, such as are some individual factors more important than others, is there an optimum sequence for making

decisions about each of the factors, and are some individual factors of such importance that they should dominate or override others (Mudambi & Venzin, 2010).

#### **6.4.1 In what order should decisions about CSF be made?**

The data gathered in the longitudinal case studies suggests that the overall task of aligning OBPO strategy with company strategy is best viewed as a multi-dimensional optimisation exercise aimed at obtaining sustainable competitive advantage from selection of governance mode (i.e. captive or arms-length contracting) and location, and that it also requires that client companies are willing to review these choices at regular intervals.

It has been argued (Mudambi & Verzin, 2010) that making decisions independently on individual factors of OBPO strategy such as location choice and governance mode (or selection of engagement model) is sub-optimal, and the data gathered in these case studies provides support for that view. Data collected at the five client case studies (ANZ Bank, British Airways, IORAM, REPCOL and Telstra) strongly indicates that decisions regarding selection of business processes for OBPO, choice of engagement model and location should be made simultaneously, and then reviewed at regular intervals.

Selection of business processes is a particularly important decision, because it must strongly influence choice of engagement model. If a business process selected for OBPO is one through which the client company can create significant value, and/or the process requires significant contact with end customers of the client company (referred to by Youngdahl & Ramaswamy (2008) as having high interaction intensity), then it is very important that the client company retain control over that process and avoid any “knowledge leakage”. Hence, a captive centre would be strongly recommended as the engagement model for business processes that fit this category.

British Airways’ choice of a captive model for OBPO involving aspects of its Executive Club frequent flyer program is therefore consistent with the approach of making decisions **simultaneously** about selection of business process, engagement model and location, as is illustrated in the following quote:

“The BPO to WNS was handled differently [as compared to OITO], and decisions regarding the start-up of WNS as a captive operation were before my time. But I understand that the initial business drivers for establishing a captive operation were around the need to exercise control over tasks that either touched BA customers (like performing back office support for Executive Club members) or were fundamental to our commercial relationships with other airlines (like passenger revenue accounting).”

However, there are significant challenges in making simultaneous decisions about selection of business processes, engagement model and location. As noted by Mudambi and Venzin (2010) the potential combinations of options are very high, so that calculating the transaction cost to benefit ratio for each combination and option becomes too difficult. This is consistent with the views expressed by Lacity et al., (2008) who have referred to senior executives facing a “dizzying set of evolving choices” in terms of sourcing locations, engagement models and service offerings from suppliers together with the need to maintain in-house capabilities. Moreover, these choices are not universal but are specific to each client company’s business context (Mudambi & Verzin, 2010). Jensen et al., (2013) argue that many firms underestimate the decision-making challenges associated with OBPO and that such underestimation frequently undermines the achievement of OBPO goals.

#### **6.4.2 Which are the most important CSFs?**

Some researchers have argued that it is the responsibility of senior management to assist in addressing these challenges by limiting the spectrum of OBPO choices through the issuing of strategic guidelines (Mudambi & Verzin, 2010). This appears to have been a critical success factor for the ANZ Bank captive centre OTSS initially established in Bangalore and subsequently expanded to Manila and Chengdu whereby successive CEO’s of ANZ Bank took a strong interest in ensuring that OBPO strategy was aligned with company strategy, and also laid down guidelines which reduced the number of choices required to be made by operating managers, as illustrated by the following quotes from former CEO Michael Smith:

“At ANZ, we are committed to keeping our call centres and customer facing roles at home in Australia and New Zealand ... but a significant part of our software development, technology and [business operations] support now goes on in Bangalore”, and

“In a number of technology and operational areas, Indians are some of the most skilled professionals in the world. These are skills which are in chronic short supply in Australia and New Zealand”

As noted by former head of ANZ OTSS Fred Bertram:

“Our job is to reduce ANZ’s cost to income ratio by taking costs out of the business processes assigned to OTSS, and to build the best global banking business operations in the world by 2008, for any full service bank. We plan to do that by running ANZ OTSS as a fully integrated captive with HR policies that mirror the parent company (we are “ANZ in Bangalore”), and by building up the capabilities and skills of our people”.

These quotations provide support for the conclusion that CSF 3 and CSF 1 (senior management commitment and perseverance, and aligning OBPO strategy with company strategy) are probably the two most important factors. While Mudambi and Venzin (2010) argue for the advantages of making simultaneous decisions on inter-related factors such as choice of governance mode, location and selection of business processes, they also acknowledge the challenges this presents for client company management and the need also to factor in business context. The data gathered in the case studies would support the conclusion that optimal outcomes are most likely to be obtained if decisions regarding the following factors are made in unison:

CSF 2	Clear definition of success (goals and KPIs for measuring progress)
CSF 4	Selection of business processes for OBPO
CSF 5	Selection of OBPO engagement model
CSF 6	Knowledge management strategy
CSF 7	Choice of location
CSF 8	Risk management

Other CSFs such as emergence of a cadre of culturally agile managers (CSF 11) and assessing next generation options (CSF 12) will emerge over time as the OBPO activities are underway and proceeding.

### **6.4.3 Underpinning theories applied to the CSF model**

While the qualitative data that is analysed in sections 6.2 and 6.3 has enabled the critical success factors model to be verified, the analysis also confirms that OBPO outcomes cannot be accommodated by one underpinning theory such as transaction cost economics (Lacity, Willcocks & Khan, 2011), and that multiple theoretical perspectives are required (Mihalache & Mihalache, 2016). Transaction Cost Economics is highly relevant to a number of the propositions for which strong support was found in the data, notably P3-P7 dealing with client company objectives from OBPO and, combined with other underlying theories, also P18 - P20 dealing with choice of OBPO location.

The resource-based view (RBV) of the firm (Barney, 1991) is highly relevant to P1 and P2 dealing with alignment of OBPO strategy with overall company strategy and organisational learning, P8 dealing with senior management commitment and P32 and P33 dealing respectively with review and regeneration of OBPO strategy and with emergence of a cadre of culturally agile managers.

Institutional theory explains that some aspects of management decision-making are a product of values, norms beliefs and regulations originating in larger institutional contexts (DiMaggio & Powell, 1983). As was noted by Ang and Cummings (1997), mimetic normative and coercive forces often override TCE in influencing services outsourcing decisions, and in industry sectors such as banking and finance, telecommunications and airlines, strong regulatory frameworks exerted a coercive influence on management. Data gathered in the case studies supports the view that institutional theory has explanatory power for client companies' decision-making regarding P 9-16 dealing with structural and strategic choices that client companies make about OBPO. Institutional theory also appears directly relevant to the outcomes for P21- P33.

## **6.5 VALUE PROPOSITION OFFERED BY OBPO CAPTIVE CENTRES**

In the context of selection of engagement model, a number of researchers have observed that with more than two decades of experience with OBPO, barriers such as search and contracting costs and related information asymmetries have decreased. Hence arms-length contracting could be expected to predominate over captive centres as the preferred engagement model (Tate et al., 2009). But this trend is not reflected in statistics which show persistence of the OBPO captive centre at around 30% of total OBPO market, with the number of employees engaged in OBPO via captive centres steadily increasing and having recently reached 1.2 million FTE (Everest Global, Inc., 2016; 2017).

There also appears to be a strong trend to expand the scope of existing OBPO captive centres, as was demonstrated by ANZ Bank in the case study reported in Chapter Five and as reported by Dani, Karthik, Singh and Srivastana (2010). Data collected from surveys of 1,200 business leaders and managers involved with captive centres in India and the Philippines revealed a high level of satisfaction with the business benefits being obtained, and a commitment to increase the scope of their operations. As reported by Chandok, Kekre and Khetarpal (2013), 83% of business leaders, representing some 250 captive centres in low-cost locations such as India and the Philippines, reported that they were satisfied or highly satisfied with the performance of their captive operations. Moreover, approximately 65% of the 1,200 respondents surveyed said they were likely to increase the scope of their OBPO captive centres in the next 2-3 years.

Despite its size, importance and continuing growth, research into OBPO captive centres is still in its infancy (Oshri & van Uhm, 2012), and this author could not locate any research into the value proposition offered by OBPO captive centres to parent companies (although mentioned

briefly in Oshri & van Uhm, 2012), and only one article (Balaji et al., 2012) which considered the value proposition of offshore captive centres in the context of IT software development.

A brief discussion of the relative merits of conducting OBPO via captive centres or third-party contracts is found in the form of an interview published in two parts in Knowledge@Wharton (2003). The interview was conducted by Wharton Professor R. Aron with Raman Roy, founder of the “pure play” OBPO service provider Spectramind, which was subsequently acquired by WIPRO.

In this research into OBPO captive centres the data from the case studies has been used to build upon the work of Balaji et al. (2012), but goes further by developing the value proposition in more depth and in the context of OBPO.

Balaji et al. (2012) investigated whether captive centres can deliver value to the parent company beyond cost reduction, and what factors contributed to the realisation of such value. Working in the domain of offshored IT software development, they found that the value proposition of successful offshore captive centres was based on distinct human resource capabilities (including domain knowledge), relationship management capability in the captive itself and also the level of technology capability and expertise. Where each of these factors were present, Balaji et al., (2012) found that captives generated superior value. Importantly, in their case study research, Balaji et al., (2012) observed that a key success factor was recognition by captive centre management that they had an opportunity to improve and expand their capabilities and enhance their relationship with parent company senior management.

A further aspect of the value proposition offered by the captive model is the extent to which well-managed captives can deliver innovation to the parent company. As reported by Oshri, Kotlarsky and Gerbasi (2015), high quality relationships between client and supplier are an important catalyst for achieving strategic innovation. Only a partnership approach or other form of joint venture between clients and suppliers was found by Oshri et al., (2015) to have a significant positive impact on high-risk strategic innovation. As discussed in section 6.5.4, Boeing’s outsourcing strategy for the 787 Dreamliner sought high-risk innovation, and ran into significant difficulties in the early stages (Gates, 2013). As a consequence, Boeing in effect adopted a captive model for two of the most problematic aspects. Hence, there is a future research opportunity to investigate the extent to which the value proposition for OBPO captives includes facilitating strategic innovation.

### **6.5.1 Management actions to strengthen the value proposition from OBPO captives**

Data gathered in the case studies presented in this research also found that the four captive centres studies appeared to offer superior value in the case of OBPO of knowledge-intensive services. We also found evidence in the cases involving REPCOL, British Airways and ANZ

Bank of management of the value creating factors identified by Balaji et al., (2012), notably in senior management perseverance in enhancing the capabilities of the captive centres and promoting acceptance of their outputs. For example in the case of ANZ Bank, the head of ANZ OTSS Fred Bertram was a strong and effective advocate for the capabilities of OTSS, and took every opportunity to “tell the Bangalore story” to senior executives across the bank. The former CEOs of British Airways and ANZ (Rod Eddington and Mike Smith respectively) were on the public record advocating for the benefits being delivered by their OBPO captives and BA rotated long-serving managers through WNS in order to capture organisational learning regarding the capabilities of WNS.

While Gerbl et al., (2015) and Eli et al., (2015) have commenced research that considers some aspects of the results being delivered by OBPO captive centres, there appears to be a clear research gap on the factors that result in OBPO captive centres delivering value to the parent company, which the case studies being reported in this research are helping to address.

Both Gerbl et al., (2015) and Mudambi and Verzin (2010) identify the advantages offered by OBPO captive centres for more complex processes (aka “knowledge-intensive services”) of the types examined in this research, by identifying the strengths of the captives in providing additional coordinating mechanisms and thus enabling complex interdependencies to be managed.

When there are high levels of interdependencies between business processes the outputs of which are required to be reintegrated back into the client company, Elia et al., (2015) notes that companies face risks of higher “hidden costs” of OBPO and also higher risk of knowledge “leakages”. Elia, Caniato, Luzzini and Piscitello (2014) also found that an OBPO captive centre was likely to deliver higher technical service quality than external OBPO service providers when the nature of the OBPO activities involved higher task complexity.

A framework for companies making decisions about their OBPO engagement model is proposed by Hutzschenreuter et al., (2011a) in a paper which argues that institutional factors will play a significant role in choice of engagement model, noting that US, UK and Dutch firms are much more likely to choose an external governance mode (i.e. contract-based arrangements) than their German counterparts. Data gathered in the case studies reported in this research also appeared to support the importance of institutional influences, as each of the four companies that adopted captive models were responding to normative pressures associated with industry regulators and from their end customers. Selection of a captive engagement model was also influenced by the nature of the tasks selected for OBPO and by a preference to retain control over transactions that involved significant tacit knowledge and in some cases high levels of direct interaction with their end customers. The implications for



practicing managers of the value proposition offered by OBPO captive centres is discussed further in section 6.5.2 below which considers specific advantages and disadvantages of the captive engagement model for OBPO.

### **6.5.2 Summary of business drivers for/against captive model for OBPO**

When the business processes being offshored fit the definition of “knowledge-intensive services”, the business drivers in favour of a captive engagement model appear strong.

#### **Cost-effectiveness:**

For a captive to match the cost reductions delivered by arms-length contracting requires strong cost focus by management of the captive centre and also sufficient volumes of transactions to enable critical mass to be established, which is a pre-requisite for obtaining return on the initial investment required to set up the captive centre (Knowledge@Wharton, 2003).

Each of the captive centres in the case studies was able to deliver significant cost reductions to the parent (or client) company, which probably meant that these captive centres were in effect capturing the margins that might otherwise have gone to a third-party OBPO service provider, noting that the case study of INFOSYS reported in Chapter Five section 5.9.3 found that gross operating margins were approximately 25% for OBPO.

#### **Human Resources:**

Advantages of a captive operation may include higher levels of commitment from offshore staff to parent company values and goals and the ability to develop a common culture across both the parent company and the OBPO captive centre (this was a major consideration for ANZ Bank). It may also allow more effective talent acquisition and retention and hence the ability to strengthen domain knowledge. Adopting an integrated captive strategy, ANZ was willing to make significant investments in developing the capability of its staff at OTSS in Bangalore. All of the captives in this research reported that staff attrition was a significant risk, and all made major efforts to monitor staff attrition and to lower its incidence.

#### **Control:**

In the case of an OBPO captive operation, domain knowledge, intellectual property and process improvement expertise are more strongly protected than would be the case if the engagement model is arms-length contracting. Stronger alignment with the parent company will facilitate two-way transfer of tacit knowledge, and the re-integration of OBPO outputs

back into the parent company. This is likely to be a critical success factor in the case of OBPO involving knowledge-intensive services.

### **Innovation:**

In knowledge-intensive services a captive operation offers better control over intellectual property and also greater capability for capturing and transferring organisational learning. Moreover, third-party service providers may not have the combination of technical and domain knowledge required to drive innovation. However, the ANZ Bank and British Airways case studies offer contrasting insights on this point, as ANZ adopted an integrated captive approach in order to drive for global best practice in full service banking operations, whereas British Airways was able to transition successfully to an arms-length contracting relationship with WNS (albeit after 8 years of operating WNS as a captive operation).

As noted by former British Airways CEO Rod Eddington:

“The overall strategy [with respect to the relationship with WNS] didn’t change much. Of course, viewed from outside some of the changes such as the sell-down of WNS may have appeared to be dramatic changes. Again, in terms of broad business goals, in the period from 2001-2005 BA debt came down by 55% from 6.6 billion GBP at the peak to 2.9 billion in 2005. We realised about 2 billion pounds from asset sales, and the sell down of WNS was part of that process. By 2002, it was obvious that WNS would be better served with an owner other than BA. In a sense, the success of WNS meant that it had outgrown its status as a captive. It was performing successfully BPO tasks for other airlines, and BA had supported that growth because higher volumes for WNS meant cost reductions for BA through economies of scale. When we became aware that there was an appetite in capital markets for investment in offshore BPO companies, we decided to go down the path of divesting our 100% ownership in WNS.”

As more companies seek added value from OBPO that goes beyond cost reduction, including strategic innovation (Oshri, Kotlarsky and Willcocks (editors 2015), it will be an important research topic to determine the advantages that a well managed captive may offer in driving innovation.

### **Disadvantages of a captive:**

To a large extent these will depend upon prior OBPO and country operating experience of the client or parent company. If a client company lacks OBPO experience, third-party contracting will almost certainly result in a faster start-up to business benefits

realisation, and it may lower some of the business overheads that would be required in the case of a captive centre to manage recruitment, retention and cultural issues. Initial capital outlay is almost certainly lower for arms-length contracting than for a captive (Knowledge@Wharton, 2003).

Successful development of an OBPO captive operation will require an initial up-front investment, together with significant senior management commitment to achieve critical mass and acquire organisational learning about the country in which the captive centre is operating. It will be necessary to appoint a management team including a cadre of culturally agile managers capable of boundary spanning between parent company culture and the norms in the OBPO location. The ability to attract and retain staff in the captive centre, and possibly to deal with high rates of staff attrition may present challenges. These can be offset to a certain extent if the parent company has (or can build) strong brand recognition in the offshore location, which is something that both British Airways and ANZ Bank were able to achieve quite readily.

The two SME cases (IORAM and REPCOL) demonstrated that with appropriate senior management commitment it was possible to establish a successful captive operation with a relatively modest upfront investment in a knowledge services cluster such as Bangalore. Key challenges for IORAM and REPCOL proved to be the recruitment and retention of culturally agile managers capable of performing a boundary-spanning role in the captive centres. Data gathered in this research demonstrated that such roles are frequently stressful for the individuals involved, and that demand for experienced middle managers with this capability exceeds supply, a point also made by Raman Roy in Knowledge@Wharton (2003), who noted:

“... the deeper the experience, the scarcer the talent becomes at the top – and to find the leadership that has the expertise of operating out of India and doing international work out of India is a very high barrier to scale.”

A further potential disadvantage of an OBPO captive is the need to develop a range of exit options that can be implemented if the parent company decides that it needs to change or scale back its OBPO strategy or to shift offshore locations. In contrast, if third-party contracting does not succeed, the client company may be able to exit or change OBPO arrangements with limited financial or other liability.

### **6.5.3 Underpinning theories applied to the captive centre value proposition**

The value proposition offered by captive OBPO centres appears to provide further support for the view that a combination of underlying theories offers a deeper

understanding of OBPO management decisions and outcomes (Miranda & Kim, 2006; Jayatilaka & Hirschheim, 2009; Lacity, Willcocks & Khan, 2011a; Mihalache & Mihalache, 2016). Each of the four case studies that involved OBPO captive centres provided substantial and detailed evidence that significant cost reductions were being delivered. Hence, transaction cost economics offers **some** explanatory power, but similar cost reductions could also be obtained through arms-length contracts with OBPO suppliers, so other underlying theories need to be applied in order to obtain insight into the persistence of the OBPO captive model.

As noted in 6.4.1, institutional theory provides substantial support for the value and importance of the OBPO captive model and its persistence, particularly in industry sectors that are characterised by a relatively high degree of regulation. Adoption of a captive model by client companies was also influenced by the nature of the tasks selected for OBPO and by a preference to retain control over transactions that involved significant tacit knowledge, and in some cases high levels of direct interaction with their end customers.

A resource-based view of the firm (RBV) leads to an understanding that competitive advantage is obtained from certain resources and/or hard-to-imitate capabilities that a particular company is able to mobilise to a greater extent than competitors. Data gathered in the case studies provides support for the view that each of the client case studies that adopted a captive engagement model were seeking competitive advantage. These companies saw their captive operations as providing important capabilities that were either necessary to maintain competitive parity or could be leveraged to provide a strategic advantage and point of differentiation.

#### **6.5.4 What can be learnt about the value proposition offered by captive centres from Boeing's 787 Dreamliner experience?**

With the aim of reducing its capital outlay and shortening cycle time, Boeing significantly increased the extent of outsourcing for the 787 Dreamliner, as compared to earlier airliners such as the iconic Boeing 747. For the 737 and 747, Boeing had outsourced about 30% - 40% of the content. For the 787 Boeing planned to outsource about 70% of the content. Boeing also significantly changed the nature of its relationships with its top tier of about 50 suppliers, handing them complete control of their piece of the plane. These major Tier One suppliers had to make upfront investments, share the risk and own the design (Tang, Zimmerman & Nelson, 2009; Kotha & Srikanth, 2013).

In adopting a new outsourcing paradigm for the 787 Dreamliner, Boeing wanted to transform from a “wrench-turning manufacturer into a master planner, marketer and snap-together assembler of high-tech airplanes” (Kotha & Srikanth, 2013, p. 14). As well as this transformational approach to outsourcing, Boeing was also using offshore outsourcing to help sell their new plane into the respective markets of its outsourcing partners (e.g. Japan, Europe, Australia, etc.).

Unfortunately, these outsourcing arrangements encountered major problems. Suppliers fell behind schedule and major components arrived at Boeing’s Everett assembly facility with thousands of missing parts. Delays cost Boeing hundreds of millions of dollars in penalties and concessions to airline customers, and cancelled orders (Denning, 2013).

Once the problems being experienced with outsourcing became evident, Boeing took a number of steps to address problems and get the program back on track. These steps included co-locating Boeing engineers at suppliers’ premises, adopting new centralised tools and processes to provide greater visibility of the supply chain and earlier warning of problems, and bringing some major functions, such as design and manufacture of major fuselage sections, in-house (Shenhar, Holzmann, Melamed & Zhao, 2016).

As reported by Tang, Zimmerman and Nelson (2009), after repeated failed efforts to assist Vought, supplier of the 787’s composite rear fuselage, to get back on track in terms of budget and schedule, Boeing decided to acquire Vought’s facilities and intellectual property in July 2009. In effect, this event represented Boeing transitioning its outsourcing engagement model for this critical component (i.e. rear fuselage) from third-party contracting to a captive model.

Analysis of Vought’s situation indicated that a pivotal issue was the transfer of decision rights from Boeing to its third-party contractor (Kotha & Srikanth, 2013). While Vought had the role of integrating major subsystems being supplied from Boeing’s other Tier One partners, Vought lacked the disciplinary authority when those suppliers delivered incomplete or non-functional assemblies at Vought’s locations.

Boeing’s actions in restructuring its outsourcing arrangements to fix earlier problems were ultimately successful, although at considerable cost to Boeing (Kotha & Srikanth, 2013; Shenhar et al., 2016).

Boeing’s case with the 787 Dreamliner is relevant to this research for two major reasons. Firstly, it is highly unusual to have an outsourcing case that involved major problems where there is a considerable amount of high quality information (including publications in respected academic journals analyzing the case). Secondly, the remedial action taken by Boeing provides further reinforcement for the value proposition offered by the captive model, especially in circumstances where OBPO involves knowledge-intensive activities that are

subject to significant uncertainty. The case (which is discussed further in Appendix 9) illustrates that Boeing was motivated to adopt a captive model in order to obtain greater control over the activities being outsourced and to clarify decision rights.

## **6.6 CROSS CASE ANALYSIS AND COMPARISONS**

Having considered in detail the insights obtained from the qualitative data used to test the propositions as outlined in the sections above, section 6.6 below provides cross-case analysis to compare and contrast how some of these major insights were represented across each of the cases.

### **6.6.1 OBPO success criteria**

Data gathered in the case studies appears to confirm the validity of the “OBPO success model” set out in Chapter One, figure 1.1. In each of the cases, early years of OBPO experience saw strongest emphasis placed on cost reductions. In each of the five client company case studies, this research gathered consistent and detailed data that confirmed that cost reductions of 40% - 50% were being obtained from OBPO, and with high levels of technical service quality being delivered. The two small and medium enterprise cases (IORAM and REPCOL) both had broader objectives for OBPO than just cost reduction, and both were able to address strategic goals including cycle time reduction and addressing skills shortages and bottlenecks. British Airways also moved very quickly from a primary focus on cost reduction to a broader focus on strategic objectives. By contrast, ANZ Bank and Telstra were slower to look for strategic outcomes from OBPO, but both eventually did so, and in the ANZ case achieved very strong strategic benefits that were sustained over a long period.

In each of the five client company cases OBPO organisational learning (refer to section 6.6.3 below) was rapid and led to client companies recognising the advantages that OBPO could deliver in terms of technical service quality and strategic considerations, which varied according to the business context of each company. However, the success model developed for this research appears to be sufficiently robust to accommodate changes to business context.

The three OBPO supplier cases provided evidence that they were each committed to delivering business success to their clients in a manner closely fitting the OBPO success model set out in Chapter One, figure 1.1, and also that these suppliers recognised the importance of facilitating rapid organisational learning. Moreover, facilitating organisational learning and executing effective knowledge management was a key aspect of their value proposition that they delivered to clients.

In terms of organisations' motivation for conducting OBPO in knowledge-intensive services, this research also provides support for prior ITO theory that success is specific to business context and also that it has a temporal dimension. In other words, success must be assessed against each company's own, different criteria, and that goals sought from outsourcing will change over time (Oshri, Kotlarsky & Liew, 2008; Cullen, Seddon & Willcocks, 2008).

### **6.6.2 Selection of engagement model (or governance mode) for OBPO**

For Telstra, business context changed significantly with the launch of its company-wide Transformation program in late 2005. The emphasis in its offshore success model shifted accordingly from cost reduction to a greater focus on strategic considerations, including the impact that some OBPO activities had on end customer satisfaction (measured through Net Promoter Score or NPS). With hindsight, this may have been an appropriate point to have revisited the engagement model for OBPO, which Telstra subsequently did from 2009 onwards.

For British Airways and ANZ Bank, business context remained relatively stable. ANZ Bank was operating within a strongly-enforced prudential and regulatory environment, which reinforced the advantages of a pure captive model for its OBPO activities. During the decade from 1996 in which ANZ and BA were operating offshore captives, the BPO industry in India grew rapidly and matured; creation of WNS as a separate entity was a contributing factor to the growth of the supplier base.

ANZ Bank saw that its regional and global competitors were operating captives in India, and decided that it needed to at least maintain competitive parity. The decision taken by ANZ was to maintain a pure captive, and to more tightly integrate this entity in order to leverage the business and proprietary knowledge that the captive had acquired. Hence, its approach was to increase the value proposition of its captive through the "ANZ in Bangalore" philosophy which increased collaboration efficiency. The business benefits realised by ANZ Bank from its Bangalore captive led to very significant expansion of OTSS and also to the extension of the integrated captive model to other locations including Chengdu and Manila.

For its SDF program, Telstra utilized arms-length contracting and sought to develop a partnering-style relationship with Accenture that would use the latter's global delivery model to replicate some of the advantages of a captive centre. Accenture's global development model is able to absorb scale and risk associated with a blended ITO/BPO program such as SDF while its internal competencies in managing knowledge increases the value proposition for the client. However, the case demonstrates that there are inherent contradictions and tensions associated with such an approach, notably those arising from regular re-bidding of arms-length contracts,

and preferences of some middle managers for tactical, local sourcing. These tensions appear to undermine trust and collaboration efficiency.

The two other supplier case studies WNS and INFOSYS endeavoured to manage these tensions through development of a partnering model with their clients which appeared to be aimed at replicating through enhanced relationship management and trust, key aspects of the value proposition for captives that is identified in section 6.5 above. This point was also reiterated by Raman Roy (quoted in Knowledge@Wharton, 2003, part two, p. 3) who noted:

“It is important to understand that this is not a routine vendor relationship. For the success of our customers as well as our own, we have to architect a partnership”.

The two SME case studies REPCOL and IORAM adopted a captive model largely because both considered that it was essential that they were able to maintain strong control over their OBPO activities as a risk mitigation strategy and also because of the perceived expectations of their common financial industry regulator APRA (Australian Prudential Regulation Authority)

The fundamental challenge to OITO/OBPO strategy formulation has been described as the sheer number of choices that have to be considered, and the changing business context within which these choices have to be made (Cullen, 2005). Each of the companies in the case study has made and enforced OBPO strategies that reduced the number of choices, which appears to be a rational approach to managing this complexity. Telstra adopted a top-down, planned approach to offshore strategy formulation, whereas it was a more “emergent” process at both BA and ANZ Bank. Each of the companies in the case study appeared to some extent to adopt a portfolio approach to designing and managing their OBPO strategy in a manner consistent with the ITO configuration model described by Cullen et al., (2005).

The case data provides some support for theory regarding a hybrid “planned emergence” process of OBPO strategy formulation (Levina & Su, 2008), and also supports academic and practitioner views regarding the emergence of a growing trend towards multi-sourcing (Cohen & Young, 2006).

### **6.6.3 Evolution path for OBPO captive centres**

Each of the four captive centres that were studied in this research underwent significant change as they pursued various growth and development strategies, generally in alignment with changes in parent company strategy or their broader competitive environment. The data collected in the four captive centre case studies supports the observations of Oshri and van



Uhm (2012) that captive centre strategy and functions are likely to change over time, and that a distinct framework or typology of evolutionary stages can be observed.

Of the captive centres analysed in this research, British Airways underwent change of the greatest magnitude, progressing from what Oshri and van Uhm (2012) describe as a “basic captive” (although the term “pure captive” may be more accurate) through to a shared captive that performed OBPO work for other airlines as well as BA, and then to a divested captive, allowing BA to leverage and monetise its demonstrated successful performance in OBPO while continuing to obtain OBPO benefits through arms-length contracts with WNS.

Superficially, ANZ OTSS underwent the least degree of change (although growth in the scale of its operations was spectacular over a sustained period of time) as it retained its positioning as a pure captive tightly integrated into the parent company. The main change in ANZ’s captive strategy was the geographical extension of the model to additional centres in Chengdu and Manila.

In 2009 Telstra also began to change significantly its OBPO strategy through creation of a hybrid captive in Manila in collaboration with two of its global OBPO service providers (Teletech and Teleperformance) with which it was already conducting OBPO through arms-length contracting. A key driver for Telstra in making this change in OBPO strategy was a recognition that OBPO conducted through arms-length contracts was having a negative impact on Telstra’s end customer satisfaction. Telstra embarked on a hybrid captive strategy to enhance “opaque indifference” on the part of end customers (Wreford et al., 2012), and to develop greater domain knowledge and end customer empathy in its hybrid captive. Concerns about high rates of staff attrition in its two OBPO service providers were also a significant influence on Telstra’s decision to move to a hybrid captive.

REPCOL and IORAM also made significant changes to their captive operations (in REPCOL’s case a significant expansion in the scale of the captive operation) in response to changes in the external environment and in shareholder expectations.

The case study participants have adopted different engagement models, including “pure” and “shared” captive operations (Oshri, Kotlarsky & Liew, 2008) and arms-length contracting. The research has provided the opportunity to identify and validate success factors and value propositions for each of these different engagement models, and has demonstrated that a relatively high rate of evolutionary change can be expected in OBPO models.

#### **6.6.4 Organisational learning and development of OBPO capabilities**

In terms of collaboration efficiency, ANZ Bank and BA both demonstrated the importance of promoting acceptance of the captive centres throughout the client organizations. ANZ executives worked consistently to break down barriers to acceptance and “sell the Bangalore story”. From the inception of WNS as a pure captive, BA executives recognized the importance of promoting internal acceptance of the offshore captive BPO centre and building confidence in its outputs. Internal acceptance (i.e. technical service quality) and cost savings were regarded as equally important. Collaboration efficiency allowed the two captives to leverage business and proprietary knowledge to add increasing value to the parent company, and thus stay ahead of arms-length offerings from the maturing BPO industry.

By building organisational awareness of the capability of their OBPO captive operations, ANZ and BA can be viewed as developing internal capabilities needed to execute successful OBPO activity. The two SME cases (IORAM and REPCOL) also demonstrated the capacity for very rapid organisational learning in OBPO, and the ability to disseminate this learning to key staff and managers; hence building capability to succeed with OBPO.

Each of the OBPO service providers in the case studies had more than two decades of OBPO experience and as a consequence had accumulated substantial organisational learning and were well organised to pass this learning on to their clients. Organisational learning was a key aspect of their OBPO capabilities and value proposition.

#### **6.6.5 Knowledge management in OBPO**

While closely related to the enabler (or success factor) of organisational learning, knowledge management refers to the two-way transfer of domain-specific and often tacit knowledge between the client company and its OBPO service provider (which in four of the supplier cases involved an OBPO captive centre). Data gathered in the longitudinal case studies demonstrated that each of the participants was engaged in formal knowledge management strategies, which were observed to be highly effective.

Knowledge management was observed to be relatively informal (but nonetheless highly effective) in the IORAM, REPCOL and British Airways client case studies. British Airways implemented organisational practices (such as rotating senior managers through their WNS captive centre and promoting a “one organisation” view of WNS as an integral part of British Airways) that appeared to contribute significantly to effective knowledge management.

Knowledge management was conducted in a more formal manner in the ANZ Bank and Telstra cases (and in the latter case was led by Telstra's OBPO supplier Accenture, which had adopted systematic strategies for knowledge management across its OBPO practice).

#### **6.6.6 OBPO location choice**

Based on the five client case studies, each company made city-based rather than country-specific location choices. Gerbl et al., (2015) provides a framework for decision-making about OBPO which combines and optimises the factors of selection of business process, governance mode and location choice. There was evidence that IORAM, ANZ Bank and REPCOL had followed a similar approach, to that advocated by Gerbl et al., (2015) although in a largely informal manner. Each of these three had selected Bangalore on the basis of its overall attractiveness as a knowledge services cluster (Manning et al., 2017), and it appeared that choice of OBPO location in these cases was based on characteristics of the city rather than country. British Airways choice of OBPO location appeared to be strongly influenced by their prior familiarity as a result of conducting passenger flights to Mumbai, although later when WNS had acquired a high degree of autonomy and decision rights, Gurgaon was selected as the location on the basis of its knowledge service cluster attributes.

Telstra was operating through arms-length contracts and relied more heavily on its OBPO service providers to make location choices on its behalf. When Telstra began to re-evaluate its OBPO strategy from 2009 onwards and adopted a hybrid captive engagement model it found that Manila, which had been the location choice of two of its major OBPO service providers, effectively became the location for its hybrid captive almost by default.

When OBPO is conducted through arms-length contracts with global OBPO suppliers such as Accenture, INFOSYS and WNS, decisions around location choice often appear to be delegated to the OBPO supplier, and there was some evidence that the supplier's selection of location was strongly influenced by where it may have had staff resources capable of undertaking the work (i.e. they had appropriate language and domain skills) and who were also currently somewhat under-utilised. In that respect, observed OBPO supplier practices are not consistent with the framework put forward by Gerbl et al., (2015), which proposes that selection of business processes for OBPO, choice of governance mode (e.g. captive or arms-length contracting) and location choice should be made simultaneously and by considering the optimal fit of each of these factors.

### **6.6.7 Risk management in OBPO**

In each of the five client companies and also in the three OBPO supplier companies there was evidence of significant attention to risk identification and management. It seems that, at least in the case studies reported in this research, there is a consensus that by its nature OBPO is an inherently risky and challenging area of business activity, and that risks can be lowered through diligent management. It seems likely that this level of attention to risk management in OBPO is a reflection of the observations of Lacity and Willcocks (2017) that up to 50% of business services outsourcing relationships result in poor outcomes.

Perhaps not surprisingly, the observations in this research demonstrated that OBPO suppliers focus on different areas of risk as compared to client companies. For the OBPO suppliers, key areas of focus in risk management appeared to be around ensuring the effectiveness of (usually formal) governance arrangements, knowledge management and transition of business processes from a client company to the OBPO supplier. In the three supplier cases, there was also evidence that access to, and effective relationships with, senior leadership teams in client companies was a key risk mitigation factor.

Managing high rates of staff attrition in OBPO service providers and also attracting, developing and retaining culturally agile managers were seen as areas of high risk by management in both the five client cases and also the three OBPO service provider cases, with high rates of staff attrition (i.e. turnover) appearing to be an endemic risk across the OBPO industry.

A specific area of risk management focus for each of the five client cases was the influence of industry regulators on their OBPO strategy. REPCOL, IORAM and ANZ Bank shared a common regulator (Australian Prudential Regulation Authority or APRA), and each adopted a captive OBPO engagement model, with the need to demonstrate to APRA that they retained strong controls over their OBPO activities being a significant influence on their choice of engagement model.

The case data supports the view that offshore captive centres can be effective in mitigating risks associated with capturing, leveraging and protecting dispersed knowledge and intellectual capital, gaining and maintaining trust and also managing language, status and cultural differences (Levina & Vaast, 2008). These advantages may be contributing factors to the reported higher rate of adoption of OBPO via captive centres as compared to OITO (Lacity, Willcocks & Rottman, 2008).

### **6.6.8 Development of a cadre of culturally agile managers**

Each of the case studies provide evidence of the critical importance of managers in both client and service provider who could provide boundary spanning and reduce or eliminate any negative performance impacts arising from culture or status differences. Such managers had the effect of reducing “perceived distance” (Aubert, Rivard & Templier, 2011) between client companies and their OBPO suppliers. The value and importance of culturally agile managers was particularly evident in the four captive centres that formed part of this research.

When a culturally agile manager was also in a CEO or senior leadership role (as was observed in ANZ Bank, British Airways and REPCOL) their value and effectiveness was multiplied. In these three client company cases, it was noticeable that culturally agile managers invested heavily in terms of their own time in promoting the value of the work and importance of the OBPO service provider within the parent company and also within the OBPO service provider (each was initially a captive centre until WNS was divested by British Airways).

It was noticeable that the three supplier case studies demonstrated that these companies were particularly effective in identifying and developing culturally agile managers. The results obtained from the eight case studies conducted as part of this research provide strong support for the observations reported in Levina and Vaast (2008) regarding managers capable of performing boundary spanning, and also the conclusions of Aubert et al., (2011) on the importance of culturally agile managers in reducing distance-induced overhead in OBPO activities.

### **6.6.9 Senior management and leadership as a critical success factor**

The case studies provided considerable evidence of inspiring leadership both at a CEO level and also in the OBPO service providers (including the captive centres). It was clear that effective senior leadership was present in both the client and supplier cases, and this was a most important factor contributing to the success that was observed in OBPO. A common leadership characteristic that was observed was a passionate belief in the effectiveness and transformative potential of OBPO.

The role of CEOs and senior leadership was especially important in respect to CSF 12 regarding a willingness to review OBPO strategy at regular intervals and to regenerate. The ANZ Bank, British Airways and REPCOL cases in particular demonstrated a willingness by CEOs to review and where necessary change and adapt OBPO strategy.

## **6.7 CHAPTER SUMMARY**

This Chapter provides details of how qualitative data that was gathered in the longitudinal case studies was used to evaluate a series of propositions that were being tested, and the extent to which this data and analysis validated the proposed Critical Success Factors model for conducting successful OBPO. Section 6.2 above provides an analysis of data gathered from each of the case studies and explains how this data was applied in a series of salience tables to test the propositions that were developed as part of the research framework presented in Chapter Three. This data was also used for drawing research conclusions based on cross-case analysis.

Section 6.3 discusses how the data provides strong support for the Critical Success Factors (CSF) management framework developed as part of this research. How that CSF framework might be applied in practice, and the insights it offers for some of the challenges associated with management of OBPO, are then discussed in section 6.4.

Section 6.5 uses insights derived from analysis of the propositions to address a significant research gap in terms of understanding the value proposition offered by OBPO captive centres for business processes classified as “knowledge-intensive services”. Section 6.6 presents the cross-case analysis which also provides a foundation for the final Chapter Seven in which the research questions are answered, conclusions drawn and the contribution of this research is identified.

## **CHAPTER 7      CONCLUSIONS, CONTRIBUTION AND LIMITATIONS**

### **7.1      INTRODUCTION**

This Chapter provides a discussion of the research gaps that have been addressed, the major findings and conclusions, and also outlines limitations and directions for future research. In addition, this Chapter also outlines the original contribution of this research, including both a theoretical contribution together with insights for practicing managers.

### **7.2      OVERVIEW OF THIS RESEARCH STUDY**

It is common to find both academic and practitioner literature referring to relatively high rates of failure and management dissatisfaction with results of OITO/OBPO decisions (Cullen, Seddon & Willcocks, 2005; Rottman & Lacity, 2006; Jensen et al., 2013; Lacity & Willcocks, 2017). These findings suggest that current published OITO/OBPO research provides insufficient guidance for practicing managers in designing effective OBPO strategy. Hence, there is a gap which this research has sought to address through the primary research question which seeks to identify and develop a model for the critical success factors that contribute to the success of OBPO.

This research argues that there are a limited set of critical success factors for OBPO. These proposed critical success factors have been identified initially from key themes in the literature, and then have been validated through a research framework that included a series of propositions that were tested through case study research conducted in the positivist tradition. A series of longitudinal case studies enabled the propositions to be tested, with the relevance of individual factors confirmed and assembled into an OBPO critical success factors management model. Thus, an original contribution of this research is an OBPO critical success factors model that fills a research gap because overarching models for OBPO strategy are rarely found in extant literature.

The Literature Review that is presented in Chapter Two identified key research gaps, and also a set of key themes that were progressively developed into the Critical Success Factors framework that was then tested through a series of longitudinal case studies (Penter, Pervan & Wreford, 2009). Data gathered in the case studies enabled the list of potential success factors to be consolidated, and their inter-relationships understood. Sections 7.4 and 7.5 below link the theoretical contribution to the primary research question.

In developing the theoretical contribution and addressing the primary research question, the aim has been to develop and validate a framework that corresponds to a type 4 theory in Gregor's (2006) typology of theories in the Information Systems discipline. As was discussed in Chapter Three on the Research Framework and in Chapter Four on Research Methods, the research design adopted is consistent with the "building blocks" approach to theory construction outlined by Whetten (1989).

Section 7.5 presents the original contribution in more detail and looks at the specific outcomes which have added to knowledge in the research field of OBPO, and some research gaps that have been addressed. This research has added to knowledge in the field of OBPO by addressing the following research gaps that have been identified from the published academic literature from the period 2004-2017 (refer to Chapter Two, Section 2.12 for more detail) and see King and Torkzadeh (2008, p. 223):

1. "What are the critical success factors for effective management of OBPO (King & Torkzadeh, 2008)?"
2. Better definition of the dependent variable – OBPO success.
3. How do cultural differences between the client and service provider affect management, communication and co-ordination?
4. What governance practices can be developed to better manage the relationship with offshore service providers?
5. What are the strategic organisational implications of OBPO (e.g. organisational learning, company knowledge and experience)?
6. Explanations for the persistence of the OBPO captive centre, and analysis of the value proposition offered by captive centres to the parent (or client) company.
7. How do OBPO arrangements change over time (i.e. longitudinal research)?
8. Research into OBPO by small to mid-sized companies
9. Use of institutional theory as a complementary theoretical lens to analyse OBPO (combined with theoretical lenses such as transaction cost economics, resource-based view of the firm and relationship exchange theory)
10. Broader perspective than just Anglo-American case studies"

### **7.3 DESIGN CHANGES THAT OCCURRED IN THE COURSE OF THIS RESEARCH**

In the course of conducting this research, lessons were learnt about OBPO and changes were made as a consequence to overall research design. The purpose of this section is to summarise some key changes that were made to the research design in the course of the study.



### **7.3.1 Reduction in number of critical success factors**

Originally the CSF model contained 16 individual factors but data gathered in the exploratory field study indicated that 4 of the initial set appeared not to offer sufficient specific explanatory power to be retained as a factor in its own right, or could be combined with other factors already included in the model. From the original 16, the following 4 individual factors were eliminated:

#### **i. Company size and ownership structure**

At the start of the research it was considered that small and medium enterprise (SME) would find it difficult to engage in OBPO and that successful client companies would generally be large and usually stock exchange listed (i.e. public-listed). However, the success of smaller companies REPCOL and IORAM in conducting OBPO suggested that this factor was largely irrelevant. Moreover, this assessment appears to be confirmed by Roza, Van den Bosch and Volberda (2011) who reported that SMEs are important actors in OBPO.

#### **ii. Industry sector of client company**

Another original hypothesis was that OBPO success factors would differ by industry sector (i.e. success factors for client companies in Banking, Finance and Insurance would be different from client companies in (for example) airlines or telecommunications). Data collected in the longitudinal case studies indicated that industry sector was not a factor that influenced critical success factors, although the degree of regulation in an industry was found to be a significant influence on choice of OBPO engagement model because client companies were able to retain more control over transactions, thus more easily meeting the expectations of regulators.

#### **iii. Client company strategic orientation**

It was originally thought that an individual client company's strategic orientation in a framework such as Miles and Snow (1978) "defender, analyser, prospector" would influence the OBPO strategy of a client company. However, data gathered in the case studies demonstrated that appeared not to be a significant factor.

#### **iv. Relationship quality and trust**

Elimination of this factor was seen as more problematic as compared to the other three that are summarised above. This factor was eliminated from the list because it was considered that it formed a component part of another CSF on transition plans and governance.

### **7.3.2 Emergence of additional factors not in initial CSF list**

The importance of organisational learning and development of company capabilities in OBPO were two related factors that were not originally part of the CSF framework, but which were

identified in case study interviews. As a result, organisational learning has been added to the CSF model as an enabler. In a similar manner, the loss of organisational capability in client companies through the “hollowing out” that can arise as a result of OBPO was also identified as a significant risk that must be managed.

### **7.3.3 Combining of several secondary research questions**

As data was gathered in the longitudinal case studies allowing propositions to be tested and tentative conclusions shaped, it was recognised that several of the secondary research questions were actually exploring very similar aspects of the OBPO phenomenon. Hence, it was possible to combine these secondary research questions to reduce duplication without loss of insight or explanatory power.

Firstly, secondary research questions (SRQ) 2 and 3 dealing with OBPO global industry structure, size and capability were combined. Secondly, SRQ 5, 6, 7 and 8 were combined into one question dealing with the OBPO success criteria being adopted by both Australian and international firms.

### **7.3.4 Change in title and expansion in scope of research project**

The title of this research project as approved at PhD candidature was “Offshore Business Processing Outsourcing by Australian Enterprises to Service Providers Located in India”. This is the title on the cover page of this thesis. During the exploratory field study, it became apparent that OBPO was a global phenomenon and that the Philippines was emerging as an important destination for OBPO service provision, and in some areas, approaching India as a destination for OBPO service provision in Asia. Hence, for practical purposes the scope of the research was expanded to include an international client company (British Airways) and OBPO service provider destinations other than India were also included in the scope.

Hence, the practical working title of the research became “Key factors that contribute to the success of offshore business process outsourcing by Australian and international companies to service providers located in India and the Philippines”.

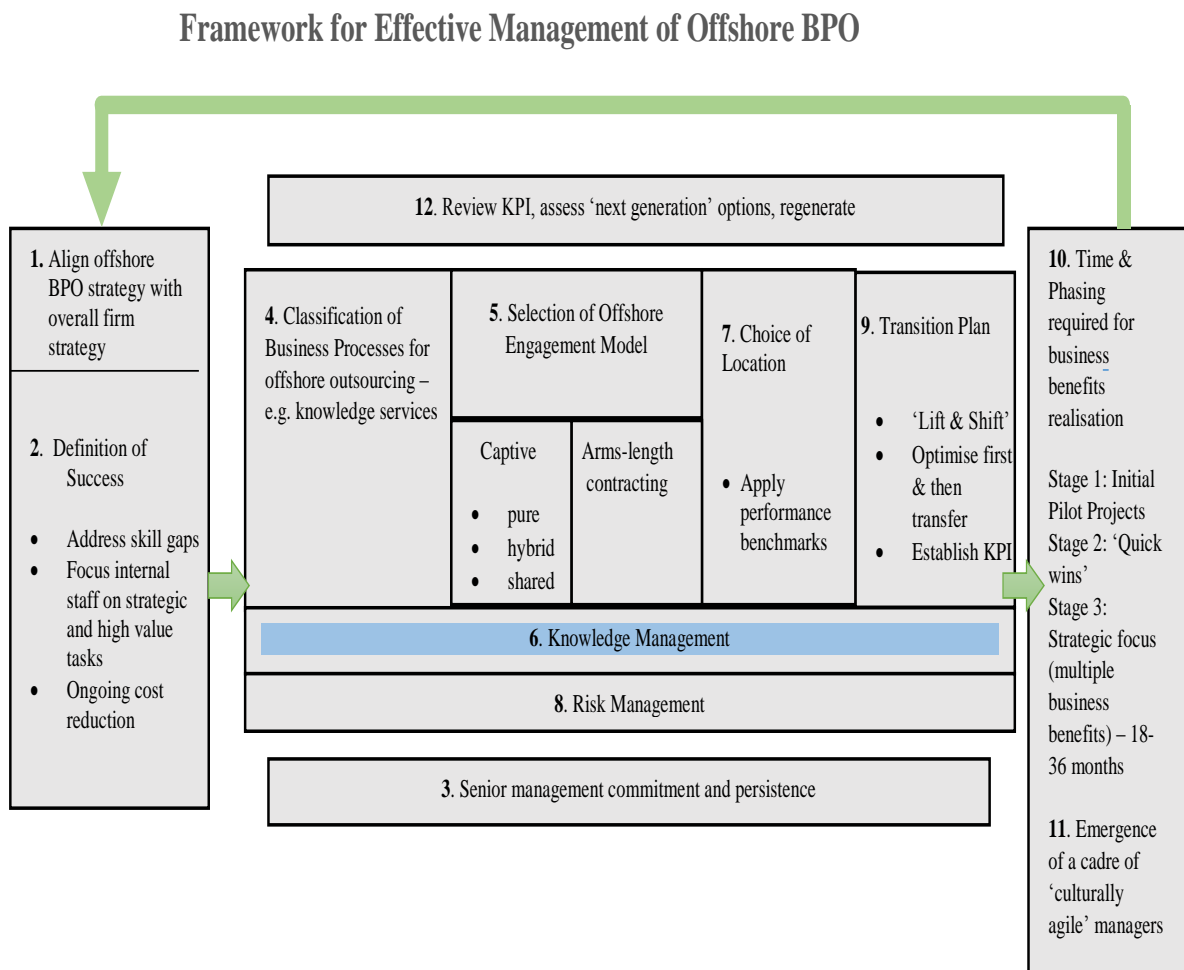
As it was not possible to change the formal title of the research project without encountering risks of significant delay, the original title has been retained.

## 7.4 MAJOR FINDINGS AND DISCUSSION

### 7.4.1 Critical success factors model for OBPO (Primary research question 1)

It has been argued (Hatonen & Eriksson, 2009) that the research question of greatest interest to managers is to receive more insights about the success factors in OBPO. Hence, as discussed in Chapter Three, a key objective of this research is to develop an understanding of the factors that contribute to success in OBPO, and how these factors can best be managed in a practical business context. It was found through testing and analysis of the research propositions via qualitative data as explained in Chapter Six that there are 12 critical success factors that contribute to OBPO success. Data that supports each of the factors and their interrelationships has been discussed in Chapter Six, section 6.2 and the CSF model is set out in summary in figure 7.1 below.

**Figure 7.1 Critical Success Factors framework for effective management of OBPO**  
(Source: Penter, Pervan & Wreford, 2009b)



Prior research on critical success factors for OBPO appears to have been scarce, as is discussed in Chapters Two and Three, and this research represents the first effort to develop a comprehensive CSF model for OBPO combining the perspectives of both clients and suppliers. The comprehensive critical success factors model set out in figure 7.1 above draws upon earlier research by Cullen et al., (2005) who present an ITO configuration model that is defined as “a set of choices that an organisation makes in crafting its IT sourcing portfolio”. Whereas Cullen et al., (2005) present a 7-attribute model that assumes domestic rather than offshore sourcing of ITO, at least 4 dimensions relevant to OBPO appear to be missing from the model. These missing elements are classification of business processes that are suitable for OBPO, selection of engagement model, choice of OBPO location and management of cultural differences.

#### **7.4.2 Size, structure and capability of the global OBPO and OITO service industry (Secondary research questions 2 & 3 combined)**

##### **i. Structure of the global OBPO service provider industry**

As noted in Chapter Two, section 2.3 (Size of the OBPO Phenomenon) it is the global scale of the OBPO phenomenon that makes this both an interesting and important research topic. In the broad context of offshore ITO and BPO, global service providers have built up competitive advantages through having access to a deep pool of well-educated professionals with proficiency in the English language (and other languages such as Japanese, German, Spanish and French) that are utilised in the home countries of client companies. The global suppliers of OBPO services (usually referred to in the literature as “vendors” or “suppliers” and sometimes as “offshore service providers”) operate with “global delivery models” providing IT-enabled services from dispersed geographical sites. The deep and relatively low cost skilled labour pools in countries such as the Philippines, India, China, Poland, Russia, Mexico and Brazil has given a source of advantage to emergent service providers such as INFOSYS, TCS, WIPRO, Genpact and WNS. These emergent companies are now competing on a global scale with established ITO/BPO companies such as IBM, Accenture and Hewlett Packard EDS that have also established operations in (for example) India where they also engage large numbers of employees from these deep talent pools.

In addition, the terminology of “offshore service provider” also extends to an internal subsidiary operation (“captive” or “global in-house centre”) established in one of these locations that are attractive as a supplier of offshore services (Rottman & Lacity 2004, 2006; Youngdahl, et al., 2008).

India is widely reported to enjoy 50% - 55% market share in the combined global OBPO-OITO (Bhattacharjee & Chakrabarti, 2015). The factors that contribute to India's competitive advantage as an OBPO destination are analysed in more detail in Appendix Eight. While India has maintained its dominance in global sourcing of business services due to the maturity and sophistication of its OITO-OBPO ecosystem, the Philippines is able to replicate some of India's advantages, especially in terms of labour cost arbitrage and favorable factor endowments. Hence in certain niche market segments (such as OBPO services involving voice contact with end customers of the client company), the Philippines has been able to challenge India's leadership position.

Both the Indian OITO-OBPO industry and its counterparts in the Philippines have established strong customer footprints in North America, Australia and the UK where English is the *lingua franca* for client companies. For European client companies operating in languages other than English, near shoring to OBPO service providers in (for example) Central Europe continues to represent formidable competition to the Indian industries. In similar vein, for client companies headquartered in the USA and UK, near shoring to Canada and Ireland respectively also presents competition to the Indian industry.

ii. Size of the OBPO service provider industry

Utilising data primarily obtained from Willcocks and Lacity (2009), Lacity, Willcocks and Rottman (2008) and Willcocks, Griffiths and Kotlarsky (2009) as baseline sources, and updating using additional data from NASSCOM and Everest Research Institute ([www.everestresearchinstitute.com](http://www.everestresearchinstitute.com)), the global market for BPO services in 2009/10 was estimated at \$250 billion. The offshore BPO component in the same period was estimated at \$85-\$90 billion. As discussed in Chapter Two, section 2.3 and summarized in Table 7.1 below, over a period of eight years from FY10 onwards the OBPO industry has averaged growth rates in the range 7% - 9%. During this period, captive centres have persisted as new captive centres continue to be opened and as client companies continue to expand existing captives.

By 2013/14, Everest Group estimated that the global offshore BPO component had grown to \$137 billion, with a compound average annual growth rate over that 5-year period of 8%-10% (Everest, 2015). The same research ranked the leading service provider destinations for performing offshore BPO as follows:

6. India
7. The Philippines
8. Central and Eastern Europe (predominantly Poland)
9. China

## 10. Mexico

In summary, the global scale of the BPO phenomenon is already large and forecast to continue to grow strongly. Hence this is a phenomenon requiring significant research focus. The table below summarises estimated OBPO global market size. Everest and other analysts report that Global In-house Centres (or “captive operations”) have represented about 30% of offshore BPO activity across that period.

**Table 7.1 Estimated OBPO global market size (USD)**

<b>Financial Year</b>	<b>Third-party contracts</b>	<b>Global In-house centres (GIC)</b>	<b>Total market</b>	<b>GIC as a percentage of total</b>
FY 10	\$60b	\$25b	\$85b	29%
FY 14	\$97b	\$40b	\$137b	29%
FY 16	\$113b	\$47b	\$160b	29%
FY17	\$120b	\$51b	\$171b	29%
FY18	\$127b	\$55b	\$182b	30%
FY20	\$140b	\$64b	\$204b	31%

[Note on table 7.1 above: The assumptions used in developing these projections are discussed in Chapter Two, section 2.3.]

### **7.4.3 Relative value and importance of Australian firms as customers (Secondary research question 4)**

Prior to the commencement of this research study, there was a perception that OBPO was a new and largely unexplored area for Australian companies which were at the time under-participating in OBPO, at least compared to their counterparts elsewhere in the Anglo-sphere, such as USA and UK (Pervan, 2004). This research has shown that in the past decade, levels of participation in OBPO by Australian companies have increased substantially, both in terms of extent of participation and also quality of OBPO business outcomes being obtained.

ANZ Bank and Telstra, which are among the longitudinal case studies analysed in this research, are two of the largest OBPO participants among Australian-headquartered companies. Based on data gathered in the case studies, the combined value of ITO/BPO sourced offshore by ANZ Bank and Telstra is now estimated to be in excess of \$5 billion AUD per annum, including work performed through both arms-length contracts and also through OBPO captive centres.

Telstra was an important foundation OITO customer for INFOSYS as an initial contract with Telstra essentially underwrote the entry of INFOSYS into the Australian market. Rio Tinto is another largely Australian domiciled mining company with a global presence which is a major OBPO participant, and has been rated by industry surveys as among the top twenty global OBPO shared services operators, along with ANZ Bank.

According to the Reserve Bank of Australia ([www.rba.gov.au/snapshots](http://www.rba.gov.au/snapshots), downloaded 16 August 2017), Australia is by some measures of GDP the 12<sup>th</sup> largest global economy, representing approximately 1% of world economic output. The Australian economy is dominated by the service sector, with a labour force of approximately 12 million. Although not as valuable or important OBPO customers as (for example) their counterparts from USA and Western Europe, Australian companies have emerged over the past decade as significant participants in OBPO, with Tier One cities in India and the Philippines being their preferred OBPO locations. Indian-headquartered OBPO suppliers such as WIPRO, TCS and INFOSYS (among others) have established a strong presence in Australia and compete with other global OBPO suppliers such as Accenture and IBM that also offer OBPO capabilities to Australian companies, primarily utilising delivery workforces based in India or the Philippines.

Drivers of increased participation over the past decade by Australian companies in OBPO have been strong competitive pressures leading to demands for cost reduction to improve productivity, and also skills shortages and bottlenecks in some areas of the economy.

While larger Australian companies participate in OBPO through multi-sourcing arrangements, data gathered in the course of this research has indicated that there is a greater tendency among Australian companies to adopt OBPO captive operations. A possible explanation for this tendency is the relatively high level of regulation in the Australian economy, which leads to client companies choosing a captive model for OBPO in order to exercise greater control and hence meet the expectations of regulators.

#### **7.4.4 Definition of success (or value proposition) for Australian firms that conduct OBPO to India and the Philippines (Secondary research questions 5, 6, 7 & 8 combined)**

As was discussed in Chapter Two, a number of academic studies point to the somewhat surprising lack of an accepted success construct for measuring ITO and BPO outcomes (Dibbern et al., 2004; Cullen et al., 2008; Wüellenweber et al., 2008a; Penter et al., 2009). Both Wiener et al., (2010), and Whitaker et al., (2011) make the case for additional research to explicitly identify the potential benefits of OBPO, while Hatonen and Eriksson (2009, p. 150) note that “*a fundamental problem in addressing outsourcing performance is that the*

*question of how success in outsourcing should be evaluated has not been examined thoroughly”.*

Hence, a theoretical contribution of this research has been to examine thoroughly the question of how OBPO success should be evaluated, and several of the original research questions for this project focused on the development and validation of a model for OBPO success which is depicted in figure 7.2 below. This OBPO success model draws upon concepts for **BPO success** proposed by Wüellenweber et al., (2008) and Rouse and Corbitt (2004) and contains the elements of cost savings, technical service quality and strategic issues, and includes the dimension of stakeholder satisfaction judged relative to expectations as proposed by Seddon et al., (2002). Contractor et al., (2010) propose that cost reduction has been the primary motivation for OBPO, and that two other strategic motivations have gained in importance. Firstly, seeking external knowledge and expertise to bolster internal company capabilities. Secondly, positioning the client company to better understand and possibly to exploit offshore markets that may be available in the OBPO service provider location.

The model for OBPO success proposed in figure 7.2 below <sup>35</sup>is consistent in high level terms with the 25-point conceptual framework for **ITO success** (Cullen et al., 2008), the high level parameters of which are defined as financial, operational and strategic.

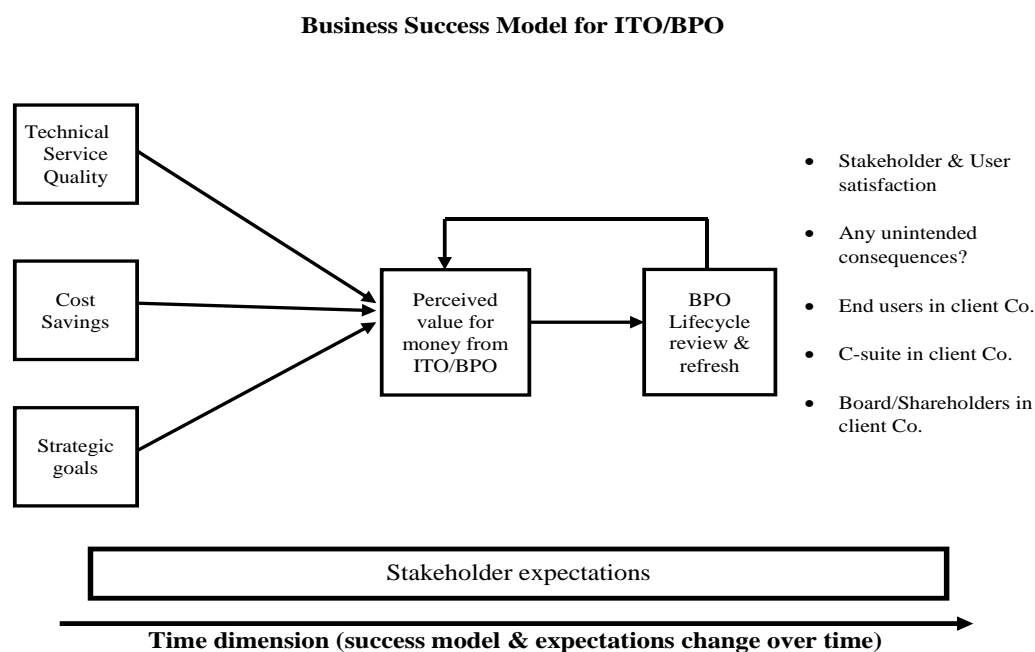
The OBPO success research model presented in figure 7.2 also recognizes that outcomes sought are specific to business context, and will have a temporal dimension in that stakeholder expectations and business context will change over time.

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<sup>35</sup>Penter, K., Pervan, G., & Wreford, J. (2009b). Offshore BPO at large captive operations in India, p.203



**Figure 7.2 Motivation/Success Criteria for organisations that are conducting OBPO**  
(Source: Penter et al., 2009b)



Data in the case studies enabled strong confirmation that cost savings of 40% - 50% were being obtained on a consistent and sustained basis from OBPO, which provides insight as to why a successful OBPO strategy is an imperative for client company management. The case study data also confirmed that each client company had OBPO objectives that went beyond cost savings, with cycle time reduction and addressing skills shortages and bottlenecks being additional goals in each of the cases.

#### **7.4.5 Key risks associated with OBPO (Secondary research question 9)**

Data gathered in the case studies and reported in Chapter Six section 6.2.8 demonstrated that all of the companies studied followed active risk identification and management strategies as part of their OBPO activities. Each of the four client company case studies that had selected a captive engagement model did so in large measure because they saw this as less risky than arms-length contracting. Active risk management in OBPO is clearly necessary, as Rottman and Lacity (2004, 2006, 2007) have identified 11 risks that are unique to offshore sourcing.

According to Lacity and Willcocks (2017) a high level of attention to risk management is warranted for OBPO activities as up to 50% of business services outsourcing relationships result in poor outcomes. Hence, a major strategic risk in OBPO is simply that the OBPO activity will not be successful in delivering the intended business benefits.

A straight-forward risk identification and management framework for OBPO is presented by Aron, Clemons and Reddi, (2005) who view risk primarily from the perspective of client

companies and classify four categories of risk, each of which is discussed below in terms of the findings from this research:

- i. strategic
- ii. operational
- iii. loss of capability in client company
- iv. geopolitical and location risks

### **Strategic risks identified in this research**

Failure to achieve expected business benefits from OBPO is a key area of strategic risk, as pointed out by Lacity and Willcocks (2017). As noted by one of the key interview sources in this research (refer to Chapter Six, section 6.1), senior management teams need to work really hard to make OBPO a success, and to ensure that the leadership team in the OBPO service provider (whether an arms-length contracted supplier or a captive centre) has absolute clarity in what is expected of them, what they have to deliver and how their work is aligned with the fundamental drivers of the business. Clearly, a source of strategic risk is any misalignment between OBPO strategy and client company strategy.

When OBPO involves knowledge-intensive services, there may also be strategic risks associated “leakage” of knowledge and intellectual property and the emergence of “hidden costs” (Dibbern, Winkler & Heinzl, 2008; Larsen, Manning & Pedersen, 2013). Prior research has argued that these hidden costs are associated with high levels of interdependencies between business processes, the outputs of which are required to be reintegrated back into the client company (Elia et al., 2015), leading to increased overheads associated with governance, coordination and complexity (Stringfellow, Tiegarden & Niew, 2008; Larsen et al., 2013).

### **Operational risks**

In terms of specific operational risk factors, data gathered in the case studies provided strong evidence that high rates of staff attrition and retaining of culturally agile senior managers capable of boundary spanning were serious and continuing operational risks to successful OBPO.

Depending upon the type of business processes selected for OBPO, another operational (and potentially strategic) risk is a backlash from end customers and stakeholders of the client company. An example of this type of OBPO operational risk occurred in July 2011 when major banking group Santander UK announced it was closing all its outsourced Indian call centres as part of a drive to improve customer service (Treanor, 2011). Regarding the possibility of a stakeholder backlash, Khan and Lacity (2014) conducted research reporting

responses by client companies to anti-offshoring institutional pressures which remains a source of operational and potentially strategic risk.

### **Loss of capability in the client company**

Loss of capability (or “hollowing out”) of the client company was identified as a risk in a number of the case studies that formed part of this research, and has also been identified as a significant risk by other researchers (Augustin et al., 2010).

Clearly, adoption of an OBPO captive centre engagement model is an effective mitigation for this risk, because knowledge is retained within a structure owned and controlled by the parent (client) company.

### **Geopolitical and location risks**

The major OBPO locations that featured in this research were in India and the Philippines, and more specifically cities such as Bangalore, Gurgaon and Manila, each of which can be described as a “knowledge services cluster” (Manning et al., 2017). It was clear from data gathered in the case studies that client company management saw OBPO location choice primarily in terms of cities rather than countries.

Data gathered from case study interviews demonstrated that subjects considered that geopolitical and location risks in these OBPO locations were not significantly different to those applicable in client company home locations. Manila is known to be exposed to weather-related risks from tropical cyclones (hurricanes) and continuing growth in the OBPO industry in each of these tier one cities leads to slightly elevated infrastructure risks which can be mitigated through business continuity planning.

### **Risks as perceived by OBPO suppliers**

Data gathered in this research demonstrated that OBPO suppliers focus on different areas of risk compared to client companies. Key areas of operational risk focus for OBPO suppliers were around effectiveness of governance arrangements, knowledge management and transition of business processes from a client company to OBPO supplier. In terms of strategic risk, the three supplier cases investigated in this research showed evidence that access to, and effective working relationships with, senior leadership teams in client companies was a key risk mitigation factor.

Managing high rates of staff attrition and retaining culturally agile managers were risk areas that were of shared concern to both OBPO suppliers and their client companies.

## **7.5 THEORETICAL AND PRACTICAL CONTRIBUTION**

While there has been growth in academic literature on OBPO from 2006 onwards, strategic frameworks that provide guidance for senior management appear significantly under-researched (Rottman & Lacity, 2008; Schoeman et al., 2008; Lacity et al., 2011a). It is also common to find both academic and practitioner literature referring to relatively high rates of failure and management dissatisfaction with the results of OBPO decisions (Jensen et al., 2013; Lacity & Willcocks, 2017). At the commencement of this research, an initial review of academic literature revealed that overarching strategic frameworks for OBPO were rare. Hence, the primary research question was aimed at developing a critical success factors management model for conducting successful OBPO.

The primary research question and associated findings are discussed in section 7.4.1 above and in section 7.5.1.1 below. To make both a theoretical and practical contribution to improved understanding of OBPO required that a series of strategic choices that maximised prospects of success with OBPO be investigated.

The theoretical contribution of this research is discussed in section 7.5.1 below. The practical contribution is covered in 7.5.2 and is largely based on application of aspects of the theoretical contribution to provide insights for managers in OBPO client and service provider companies.

### **7.5.1 Analysis of theoretical contribution**

Key aspects of the theoretical contribution include the following:

- Development and validation of a Critical Success Factors model for OBPO
- Clarification and validation of a definition of success for OBPO
- Classification of OBPO activities (with a focus on knowledge-intensive services)
- Recognition of the importance of engagement model as an OBPO critical success factor
- Identification of a value proposition for OBPO captive centres
- Development and application of the concept of “opaque indifference” for successful OBPO involving activities with high interaction intensity with end customers
- Application of Institutional Theory to senior management decision-making in OBPO
- Literature review and identification of OBPO research gaps

Each of the detailed areas that are analysed and discussed in more detail below have also been the subject of refereed articles that have been published in academic journals or in book chapters or conference proceedings.

### **7.5.1.1 Critical success factors model for management of OBPO**

As has already been discussed in detail in Chapter Six sections 6.2 and 6.3 and in section 7.4.1 above, a primary contribution arises from addressing the original research question, which was as follows:

*“What are the key factors that contribute to the success of business process outsourcing by Australian and international organizations to service providers located in India and other offshore destinations.”*

As a result of addressing this research question, a detailed framework (“model or theory”) has been developed and validated through positivist longitudinal case studies.

The case studies are described and analysed in Chapters 5 and 6, and have enabled the identification and validation of factors that are relevant to success in offshore BPO, and the development of a framework that posits certain causal relationships between these factors. Applying Whetten’s views as to what constitutes a theoretical contribution, the identification of factors and confirmation of their importance obtained from testing of propositions in the longitudinal case studies represents the “what” and “how” building blocks of theoretical contribution (Whetten, 1989).

The development of a comprehensive success factor model for offshore BPO, grounded in relevant theory and supported by data gathered in the case studies, represents an original contribution of this research that addresses the “why” building block of a theoretical contribution.

### **7.5.1.2 Clarification and validation of a definition of success for OBPO**

What Youngdahl and Ramaswamy (2008) refer to as the “meteoric growth” that has occurred in OBPO is presumably being driven by underlying business value rather than institutional factors such as mimetic or coercive influences as client companies adopt OBPO as part of a search for legitimisation. However, despite two decades of OITO/OBPO research, the definition of success remains under-theorised (Dibbern et al., 2004; Cullen et al., 2008; Wüellenweber et al., 2008a; Wreford et al., 2011) and detailed OBPO success constructs validated by research data are hard to find.

Hence, a contribution of this research has been the development and validation of an OBPO success model based on the concepts of cost savings, technical service quality and strategic objectives, and incorporating the dimension of stakeholder expectations judged relative to expectations. The OBPO success model, which builds upon Wüellenweber et al., (2008), is

presented in more detail in section 7.4.4 above, and was validated through analysis of detailed data gathered in the longitudinal case studies that are reported in Chapter Six.

### **7.5.1.3 Classification of OBPO activities (knowledge-intensive services)**

A key contribution of this research has been recognition that different OBPO activities (and especially activities classified as knowledge-intensive services) will have a different set of success factors as compared to more routine and less value adding business processes. Unless there is recognition by client company management of the importance of careful selection of business processes for OBPO, technical service quality and realization of operational efficiency can be undermined, and consequently, many companies have found unexpected challenges in OBPO that have prevented initial business objectives being achieved (Jensen et al., 2013; Larsen et al., 2013; Lacity & Willcocks, 2017).

A key aspect of OBPO (Jensen, Larsen & Pedersen, 2013, p. 230) “is the transfer of originally co-located business activities to offshore locations. When OBPO involves knowledge-intensive activities, opportunities for informal coordination are eliminated or severely reduced and teams working on end-to-end business processes may find it difficult or impossible to build collegial working environments”. Almost inevitably, there will be less direct communication between participants (Jensen et al., 2013), perhaps due to time zone differences, cultural or language barriers between geographically dispersed sites, so it is harder for teams to find common ground.

When knowledge-intensive activities are being outsourced to offshore locations, there must be coordination of the reciprocal interdependencies between the tasks required to be performed and within the extended team in the client company and the OBPO service provider that has responsibility (Jensen et al., 2013; Larsen et al., 2013). Often driven by a desire to reduce costs and/or respond to competitive pressures, companies break down their value chain into larger numbers of sub-processes so that some can be subject to OBPO (Contractor et al., 2010; Larsen et al., 2013). A consequence of this disaggregation of the value chain is that client companies are then faced with a larger number of interdependencies between the sub-processes. Success in OBPO requires that these sub-processes can be standardized and codified so that they can be more easily detached from the client company.

<sup>36</sup>The literature on OBPO offers a range of classification schemas for the types of BPO activities. A relatively common approach to classifying OBPO activities takes into account the extent to which business processes are core (i.e. key to firm success and strategic in nature),

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<sup>36</sup> Wreford, J. et al., (2011, p2), op. cit

critical and non-critical (Ramachandran & Voleti, 2004). Generally, approaches to classification of OBPO activities adopt a client company perspective, although it is also relevant to take into account the perspective of the OBPO service provider. For example, Niranjana et al., (2007) propose an OBPO taxonomy which is based on the suppliers' perspective, and utilizes the dimensions of "criticality" and "complexity". Classification of OBPO activities needs to take into account business context of the client company, which will influence decisions about the differences between core, critical and commodity processes (Aron & Singh, 2005).

Another approach classifies OBPO activities according to whether the task is unscripted and/or requires domain knowledge. Adopting this concept, Raman, (2007) proposes a hierarchy of OBPO with those activities that require the most domain knowledge and judgement at the top. Youngdahl and Ramaswamy, (2008) argue that success of OBPO activities that involve a high degree of contact with end customers ("interaction intensity") should be evaluated by placing greater emphasis on whether **tangible benefits are being delivered to end customers**. This could be in the form of shorter wait times, 7 x 24-hour service availability or higher customer satisfaction with service outcomes.

In this research an original contribution is to extend existing theory on classification of OBPO activities such as that proposed by Youngdahl and Ramaswamy, (2008) to take into account how much domain-specific knowledge is embedded in the work and how much contact offshore service providers have with customers. This contribution is further extended by the application of the concept of "opaque indifference" as described in section 7.5.1.6 below.

#### **7.5.1.4 Trends in OBPO captive centres, including explanations for the persistence of captive centres and analysis of their value proposition**

<sup>37</sup>For client (or source or host) companies located in Europe, Australia or North America that are seeking to utilise offshore sourcing models, a variety of ownership and relationship structures are possible with their offshore service providers. An early and fundamental decision for these companies is whether to establish a **captive operation** (i.e. wholly owned subsidiary) or some form of contracting relationship with an established service provider (Ramachandran & Voleti, 2004; Robinson & Kalakota, 2004; Gerbl et al., 2016).

As was noted in Chapter Two section 2.2, captive centres represent about 30% of OBPO activities, are estimated to involve more than \$40 billion USD annual in economic activities and employ more than 1.2 million FTE staff. Despite the global scale of captive activities,

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<sup>37</sup> Penter et al., (2013, p.95), op. cit.

academic literature is very scarce about the relative importance of OBPO captive centres, how these may evolve, selection of business processes for transfer to captive centres and the value proposition that captives offer to the parent company (Oshri, 2011; Oshri & van Uhm, 2012; Balaji et al., 2012; Gerbl et al., 2015). Hence, a significant contribution of this research has been to address research gaps in relation to the value and importance of OBPO captive centres, including identification of the importance of the offshore engagement model (i.e. offshore captive operation or arms-length contract with an independent provider) and explanations for the persistence of the OBPO captive centre. Both the OBPO critical success factors model and recognition of the importance of OBPO captive centres was published in 2009 in the journal *Information Technology & People* (Penter, Pervan & Wreford, 2009) as an early published output from this research.

Original contributions in this research have resulted in part from a recognition of the strengths of the captive centre model for OBPO, and from identification of the causal relationship between the nature of certain types of OBPO activities, notably higher order, unscripted tasks requiring significant domain knowledge and exercise of business judgement and the strengths of the captive model. In summary, a key contribution of this research has been to develop a success factor model for OBPO and to contribute to a better understanding of the value proposition offered by the captive engagement model, which is discussed further in section 7.5.1.5 immediately below.

#### **7.5.1.5 Identification of the value proposition obtained from OBPO captive operations**

As noted in section 7.5.1.4 above, a key element of the success factor model developed in this research has been the recognition of the importance of the captive engagement model in successful OBPO, especially that involving knowledge-intensive services. Despite its size and importance, research into OBPO captive centres is still in its infancy (Oshri & van Uhm, 2012), and this author could not locate any research into the value proposition offered by OBPO captive centres to parent companies (although mentioned briefly in Oshri & van Uhm, 2012), and only one article (Balaji et. al., 2012) which considered the value proposition of offshore captive centres in the context of IT software development.

While captive centres represent the most common engagement model for OBPO, it is also the least researched. Hence an important original contribution of this research has been to document the ways in which the captive model contributes to OBPO success **for certain types of BPO activities**. Those activities are often referred to as “Knowledge Services”, being tasks



that typically require a higher level of skill and domain knowledge from the OBPO service provider together with the need to engage with end customers of the client company.

Very little research has focused on understanding the value proposition that captive centres can offer to their parent company (Balaji et al., 2012). The value proposition offered by captives is touched on in passing by Oshri and van Uhm (2012), and is the subject of case study research by Balaji et al., (2012) who looked at software development conducted through offshore ITO, not OBPO. While Gerbl et al., (2015) commenced the task of building a multi-level model of location choices for OBPO that considered the value proposition of captive centres, there appears to be a clear research gap on the factors that enable captive organisations to deliver value to the parent company, and whether captive models are more successful under certain sets of circumstances such as OBPO of knowledge-intensive processes (Tate et al., 2009; Contractor et al., 2010).

The value proposition offered by OBPO captive centres is discussed in detail in Chapter Six, section 6.5 and builds upon research by Elia et al., (2015) which notes that the captive engagement model has particular strengths for knowledge-intensive, high value OBPO. Elia et al., (2014) argue that the higher the OBPO task complexity, the greater the risk that arms-length contracts with external service providers will not deliver adequate technical service quality to the client company. Consequently, Elia et al., (2014) argue that OBPO of more complex tasks will generally require a captive governance mode, which may reflect that component of Transaction Cost Economics which deals with asset specificity.

#### **7.5.1.6 Development and application of the concept of “Opaque Indifference”**

<sup>38</sup>A differentiating characteristic of OBPO is the extent to which, for certain types of business processes, OBPO service providers interact directly with end customers of their client customers (Wreford et al., 2011; Whitaker et al., 2011; Wreford et al., 2012). In these circumstances, OBPO activity involves a high degree of interaction intensity between end customers and OBPO service provider personnel, who must interpret the needs of their clients’ end customers and develop empathy with these end customers in order to deliver effective customer service. In OBPO, the challenge of delivering effective customer service may increase due to geographical and time zone distance, and differences in culture, language or accent, and legal systems (Aubert et al., 2011; Whitaker et al., 2011; Wreford et al., 2011).

Surprisingly, it has been difficult to locate lished academic research studies on the success factors required to manage OBPO outcomes that enhance customer service outcomes. The

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<sup>38</sup> Wreford, J. et al., (2012, p180), op. cit

author has located only a small number of published research papers in OBPO that focuses on the experience of an end customer of the OBPO client company (see for example Thelen, Yoo & Magnini, 2011; Honeycutt, Magnini & Thelen, 2012).

In the context of the supply of OBPO services, *opaque indifference* arises when:

- the location and ultimate provider of the OBPO service is not known to the end customer of the client company (i.e. is not known to the consumer of the service);
- it would be difficult or impossible for the end customer to distinguish any characteristic that would identify the location of, or by whom, the service was supplied;
- the end consumer is indifferent to location and ultimate provider of the service because that service meets their expectations in terms of efficiency, effectiveness, assumption of risk and price (Wreford et al., 2011).

Opaque indifference is important to the end customer in the OBPO environment and is a significant contributor to the level of trust in the OBPO service provider and the client company. When the OBPO service is delivered by a captive centre, it may be easier to establish opaque indifference than when OBPO is delivered through an arms-length contract with a third party service provider because collaboration efficiency, control and trust may not be as strong as with a captive operation.

The concept of opaque indifference which is OBPO delivered in a manner where the end customer is either unaware of or indifferent to the location of the service is developed in Wreford et al., 2012. An original contribution of this research has been to apply the concept of opaque indifference to the data gathered in a series of longitudinal case studies. This data leads to the original contribution that the trust relationship established with the end customer is stronger when the OBPO service is delivered by a captive operation (as compared to OBPO service delivered by a third party organisation where the control and trust may not be as strong). Major contributing factors to the establishment of opaque indifference are the strengths of the captive engagement model in enhancing collaborative efficiency and facilitating the transfer of tacit knowledge. Identification of the value proposition offered by OBPO captive centres is another original contribution of this research and is discussed in detail in Chapter Six, section 6.5 above and also in section 7.5.1.5.

### **7.5.1.7 Application of Institutional Theory to senior management decision-making in OBPO**

<sup>39</sup>Despite the availability of highly competent global OBPO service providers (such as INFOSYS, WNS and Accenture) that offer a comprehensive range of OBPO services, the captive model continues to be surprisingly persistent (Penter, Wreford, Pervan & Davidson, 2013). A contribution of this research has been to provide a theoretical explanation for the forces that have shaped the growth trajectory of offshore captive centres, particularly at the level of individual company decisions. Despite the scale of investment that companies have made (and continue to make in offshore captive centres), there has been little academic research examining the determinants of OBPO decision-making or influence sources (Lacity et al., 2011a; Oshri & van Uhm, 2012; Penter et al., 2013).

Hence, a key contribution of this research is to apply institutional theory as a complementary theoretical lens for analysing trends in offshore captive centres and as a means of explaining the persistence of the captive model. This contribution addresses a research gap identified by Jayatilaka and Hirschheim (2009) who argued that the ITO and BPO phenomena should be “*researched ... as an organisational change phenomenon influenced by institutional processes*”.

### **7.5.1.8 Value of longitudinal case study research in OBPO**

It is acknowledged in the academic literature that a client organisation’s goals for OBPO are highly context-specific and that these goals are likely to change over time (Cullen, Seddon & Willcocks, 2008; Contractor et al., 2010). This leads to a frequent recommendation in the literature for more longitudinal case studies of OBPO (see for example Parkhe, 2007, Hirschheim, Dibbern & Heinzl, 2008; Busi & McIvor, 2008). Hence, an original contribution of this research is that it provides relatively scarce longitudinal case study data and also addresses a recommendation to broaden the focus on organisations studied beyond UK and North America.

A further original contribution is the case study data gathered on small to medium enterprises that have chosen to establish a captive operation as the preferred OBPO engagement model. The bulk of published OITO and OBPO research has focused on large US and European corporations, often in arms-length contractual relationships with large Indian service providers

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<sup>39</sup> Penter et al., (2013, p.95), op. cit.

such as INFOSYS, TCS and Wipro, or with global service providers adopting an offshore delivery model such as Accenture or IBM (Penter & Pervan, 2009).

#### **7.5.1.9 Literature review and identification of research gaps**

The literature review that is presented in Chapter Two has built on earlier OBPO literature reviews, notably those of Lacity et al., (2011); Lacity et al., (2016); Schmeisser, (2013); Pisani and Ricart, (2016) and Mihalache and Mihalache, (2016). In conducting the literature review, it was noticeable that there were two broad research disciplines that had been conducting studies on OBPO (Information Systems (IS) and International Business (IB)), and that there were few connections between the bodies of OBPO research in each of these two disciplines. As noted by Mihalache and Mihalache (2016, p. 1104), this had led to a *“fragmentation of existing research due to limited cross-fertilisation between the many research fields studying this phenomenon”*.

A contribution of the literature review presented in Chapter Two is that it involved a systematic analysis of OBPO research articles from both the IS and IB disciplines. Both the IS and IB disciplines are covered by Lacity et al., (2011a) in their critical review of BPO empirical research studies. However, Lacity et al., (2011a) exclude from their literature survey any papers dealing with captive centres and related spin offs, and in selecting only empirical studies, also exclude theoretical contributions, both of which represent significant limitations. For example, a widely cited conceptual paper by Contractor et al., (2010) on offshoring of high-value activities is excluded from the sample of papers reviewed by Lacity et al., (2011a).

Hence, additional contributions of the literature review presented in Chapter Two is that it incorporates a systematic review of the (still very limited) published research on OBPO captive centres, and that it also includes a systematic review of research on OBPO involving knowledge-intensive services (also referred to by some authors as “offshore outsourcing of high value tasks”), which is another significantly under-research topic.

A final contribution of the literature review is the systematic identification and analysis of OBPO research gaps that is presented in Chapter Two sections 2.12 and 2.13.

#### **7.5.2 Contribution to management practice**

For practitioner executives in many companies, offshore BPO has been identified as offering “tremendous opportunities to drive business value” (Lacity, Willcocks & Rottman, 2008), hence it is an option that must be evaluated and implemented successfully in order to meet shareholder expectations (Penter et al., 2013). This research has sought to make a contribution

to management practice by addressing previous gaps in knowledge, and hence offering insights that can be used by management in individual companies to improve returns from significant investment in OBPO and lower risks.

#### **7.5.2.1 OBPO involving knowledge-intensive services**

While some researchers (Tas & Sunder, 2004) have suggested that well-defined, codified and self-contained processes which can be considered as “non-core competencies” are most suited to OBPO, there appears considerable evidence that the largest business benefits are obtained by utilising OBPO to utilise highly skilled offshore resources for tasks that are unstructured, business judgement-intensive and require high levels of domain knowledge. These higher skilled activities are often referred to as knowledge-intensive services or high value tasks (Contractor et al., 2010).

Where OBPO involves knowledge-intensive services, it brings with it potential risks associated with capturing, leveraging and protecting dispersed knowledge (Oshri et al., 2007; Kotha & Srikanth, 2013; Gerbl et al., 2016). Implications for managers are that selection of business processes suitable for OBPO requires careful attention, and when OBPO involves knowledge-intensive services, risks associated with “knowledge leakage” must be managed.

Without careful selection of business processes for OBPO, service quality and realization of operational efficiency can be undermined, and consequently, many companies have found unexpected challenges in OBPO that have prevented initial business objectives being achieved (Jensen et al., 2013; Larsen et al., 2013; Kotha & Srikanth, 2013; Lacity & Willcocks, 2017).

When OBPO involves knowledge-intensive and high-value activities, both Elia et al., (2014) and Gerbl et al., (2016) note that it is essential that managers are aware of the complex interdependencies among a range of factors such as location choice, characteristics of business processes selected for OBPO, process codifiability and selection of engagement model (also referred to as governance mode). As companies adopt OBPO for knowledge-intensive activities, Elia et al., (2014) and Gerbl et al., (2016) note that the need for coordination mechanisms increases which can in turn increase costs of OBPO, a risk also pointed out by Larsen et al., (2013) who identified hidden costs in OBPO associated with the interplay between complexity and the need for increased coordination and governance.

#### **7.5.2.2 Development of OBPO organisational learning and capability**

Client companies will continue to move offshore complex business processes that require significant domain knowledge and exercise of business judgement (Contractor et al., 2010;

Penter et al., 2013). OBPO needs to be viewed as a business practice that requires effective development of company-level capabilities and resources (Mihalache & Mihalache, 2016). For many companies, management learns by doing OBPO. As OBPO strategy is implemented, companies and their management move through a series of stages based on the development of capability and maturity (Carmel & Agarwal, 2002).

The prior OITO or OBPO experience of client company management, their capability to learn from that experience, and to disseminate knowledge about OBPO to relevant decision-makers plays a central role in successful implementation of OBPO (Mihalache & Mihalache, 2016).

Companies that succeed in OBPO that involves knowledge-intensive activities (both client companies and OBPO suppliers) develop dynamic capabilities to coordinate geographically dispersed networks of higher value-adding tasks and productive activities (Contractor et al., (2010); Westner & Strahringer, 2010; Mihalache & Mihalache, 2016). For client companies, such dynamic capabilities are likely to include cultural intelligence (or agility) of managers (Ang & Inkpen, 2008) and management of OBPO suppliers (King & Torkzadeh, 2008).

Implications for managers are that individual companies need to assess their overall level of capabilities for conducting successful OBPO, and take actions to progressively develop and strengthen those capabilities while also ensuring that there is alignment between OBPO strategy being adopted and the level of capability available for execution.

### **7.5.2.3 Value proposition for OBPO captive centres**

A key **theoretical** contribution of this research is to have recognised the economic scale and significance of OBPO captive centres, and their continuing persistence as an OBPO engagement model, despite the growing maturity in the global market for OBPO services. The value proposition of the captive model, particularly for OBPO involving knowledge-intensive activities, is discussed in Chapter Six, section 6.5 and also in section 7.5.1.4 above.

Implications for management are that OBPO captive centres appear to offer particular strengths for activities involving knowledge-intensive services. Client companies are able to retain control over transactions that involved significant tacit knowledge and in some cases high levels of direct interaction with their end customers, are better able to promote internal acceptance and re-integration of outputs from their OBPO captive, and more easily satisfy the expectations of regulators (Penter et al., 2013).

<sup>40</sup>Client companies that intend to maintain a pure captive model should increase collaboration efficiency with their captive centres in order to leverage business and proprietary knowledge acquired by the captive. Well managed captive operations provide an environment in which boundaries based on national, cultural and status differences can be redefined to improve collaboration effectiveness. Management in the captives should be constantly seeking to develop their capability in terms of domain knowledge, relationship management and technology including service process automation.

Other implications for managers are that there may be risks and disadvantages from choosing a captive engagement model. To a large extent these will depend upon prior OBPO and country operating experience of the client or parent company. If a client company lacks OBPO experience, third-party contracting will almost certainly result in a faster start-up to business benefits realisation, and it may lower some of the business overheads that would be required in the case of a captive centre to manage recruitment, retention and cultural issues. Initial capital outlay is almost certainly lower for arms-length contracting than for a captive.

Successful development of an OBPO captive operation will require an initial up-front investment, together with significant senior management commitment to achieve critical mass and acquire organisational learning about the country in which the captive centre is operating. It will be necessary to appoint a management team including a cadre of culturally agile managers capable of boundary spanning between parent company culture and the norms in the OBPO location. The ability to attract and retain staff in the captive centre, and possibly to deal with high rates of staff attrition may present challenges. These can be offset to a certain extent if the parent company has (or can build) strong brand recognition in the offshore location.

#### **7.5.2.4 Application of the concept of opaque indifference**

Where OBPO involves contact with the end customers of client companies, this research has found that<sup>41</sup> it is important to manage OBPO service providers to ensure that end customers exhibit opaque indifference to the location from which services are delivered. The majority of OBPO activity arises from industry sectors such as banking, financial services, insurance, telecommunications airlines and retail that are placing emphasis on improved customer service (Wreford et al., 2012). Hence, a practical contribution of this research is how to approach OBPO without negative impact on end customer perceptions of customer service.

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<sup>40</sup> Wreford, J. et al., (2011, p8), op. cit.

<sup>41</sup> Wreford, J. et al., (2011, p8), ibid

Client companies with successful OBPO captive operations demonstrated the importance of promoting internal acceptance of the outputs from their captive centres in order to break down any barriers associated with cultural and status differences and geographical distance. By taking actions to promote internal acceptance, client company management were proactively reducing the *perceived distance* (Aubert et al., (2011) in the relationship with their OBPO captive centres. Through these actions, managers increased the likelihood that opaque indifference would be obtained (Wreford, Davidson, Pervan & Penter, 2013). Client companies that intend to maintain a pure captive model should aim to increase collaboration efficiency in order to leverage business and proprietary knowledge acquired by the captive. Increased collaboration efficiency will assist in achieving the objective of opaque indifference from their end customers' perspective.

#### **7.5.2.5 Recognising the implications of Institutional Theory**

As part of organisational learning about OBPO, it may be useful for company management teams to recognise that institutional theory has explanatory power for the pressures and influences likely to be encountered in the course of OBPO decision-making. <sup>42</sup>Normative pressures are exerted on client companies and OBPO service providers by professional associations, shareholders, investment analysts and industry certification and benchmarking. Implications for management practice are that effective management of OBPO requires a good knowledge of critical success factors and a recognition that institutional influences can lead to an over dependence on taken-for-granted arrangements (Suchman, 1995) that have the effect of limiting strategic agility.

#### **7.5.2.6 Establishment of a cadre of culturally agile senior managers**

Implications for management from institutional theory<sup>43</sup> are that successful OBPO requires effective action to win legitimacy for OBPO decisions from key stakeholder groups that can exert coercive or normative influences. Action such as establishing and maintaining opaque indifference on the part of end customers (Wreford et al., 2012) and establishing a high degree of isomorphism between management practices in client companies and their OBPO service providers may contribute to such legitimacy (Penter et al., 2013). However, there may be limits to the extent to which isomorphism can be achieved between client and service providers, particularly if there is non-isomorphism with other institutions in the local cultures

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<sup>42</sup> Penter et al., (2013, p.116), op. cit.

<sup>43</sup> Penter et al., (2013, p.105), op. cit.



in which both have to operate (Kshetri, 2007; Transparency International, 2008). Hence, successful OBPO places a premium on the development of a cadre of culturally agile senior managers who can operate effectively in both the isomorphic institutional and local cultures, hence reducing status and cultural distances and contributing to boundary spanning practices (Levina & Vaast, 2008; Jensen & Pedersen, 2011).

## 7.6 LIMITATIONS OF THIS RESEARCH

The purpose of this section is to outline the limitations of this research in terms of generalisability and possible sources of bias arising from research methods adopted, data that has been collected and interpretations and conclusions made from that data.

### *i. Limitations in Generalisability*

<sup>44</sup>A limitation of this research is that it is focused on client or host (i.e. outsourcing) companies that operate primarily from Australia and United Kingdom, with either captive operations or OBPO service providers primarily located in India and the Philippines. The client companies that were involved in longitudinal case studies are drawn from three industry sectors, these being banking and financial services, telecommunications and airlines. While the case studies have enabled data to be collected on a range of industry sectors, company sizes and different OBPO engagement models to enable cross-case comparisons, the actual number of case studies is relatively few, involving five in-depth client case studies. These case studies are based on qualitative data gathered over a relatively limited time span of just over 5 years (Penter et al., 2009b; Penter et al., 2013).

However, published case studies on the captive model in OBPO are scarce, and there has been little published research that addresses the factors that influence selection of OBPO engagement (or governance) model (i.e. either some form of captive centre or arms-length contracting) or the value proposition offered by captive centres. These case studies are intended to add to the literature on this currently under-researched area.

In an attempt to address these limitations in generalisability, exploratory field study research was conducted on OBPO service providers located in Vietnam, the Philippines and South Africa.

The emerging theory developed from this research project was tested against published academic literature that reported on case studies conducted on client companies in North

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<sup>44</sup> Penter et al., (2008, p28) op. cit.

America, the Netherlands, Germany and Hong Kong and on captive operations and service providers located in a number of service provider locations around the globe.

*ii. Bias Towards Success in In-Depth Case Study Research*

<sup>45</sup>The research is likely to have a bias towards success, as it has been easier to obtain access to senior executives and to corporate information in cases where there is general acknowledgement that the OBPO model has been successful and has delivered business benefits. As noted by Rouse and Corbitt (2004), companies are less willing to provide information and access to projects that are considered to be unsuccessful or experiencing difficulties.

The research has been assisted in various ways by Australian companies that have been active in OBPO to India. Similarly, Indian-headquartered and global OBPO service providers (e.g. INFOSYS, WNS, WIPRO and Accenture) have been generous with executive access and time. This has allowed a rich data set to be collected from enthusiastic and inspirational managers and executives but may also introduce potential sources of bias”.

*iii. Participant/Observer Bias in Telstra In-Depth Case Study*

A further limitation and source of bias is that the author had an active involvement as an executive in one of the cases described in this research (Telstra). Walsham (2006) argues that such a situation needs to be undertaken with caution as it can result in compromises. The employing organisation will not wish to be portrayed negatively, and a dilemma for the researcher is how to fully and accurately represent the truth when the researcher is both participant and observer (Penter, Pervan & Wreford, 2008). To address this potential source of bias, multiple interviews were conducted and successive drafts were reviewed by executives in both Telstra, Accenture and Telstra’s hybrid captive OBPO operation located in the Philippines.

*iv. Possible Cultural and English Language Bias*

Interviews and data collection has been in the English language. It has been argued that OITO and OBPO has to some extent been (or was at least initially) an English-speaking phenomenon, but the inability to conduct interviews in primary languages (e.g. Hindi, Kannada) in OBPO service provider locations such as Gurgaon and Bangalore may restrict the pool of service provider managers and staff from whom in-depth data can be collected. Management of

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<sup>45</sup> Penter et al., (2008, p28) ibid

cultural differences has been identified in this research as an important success factor in managing OBPO; hence, potential cultural and language bias arising from the use of English for data collection needs to be highlighted.

v. *Choice of Research Method (i.e. Longitudinal Case Studies)*

The choice of the case study method is supported by Eisenhardt (1989) as highly suitable for the circumstances that were applicable at the start of this research project (i.e. relatively new research topic where little is known about the phenomenon under study). However, Eisenhardt (1989) also notes that such case study methods often yield large volumes of rich data and hence there is a temptation to build theory that captures every idiosyncratic factor revealed in the data and observations. Such theory, according to Eisenhardt (1989), may lack an overall perspective and may not highlight the most important relationships in a particular theoretical framework.

There is a risk that the original contribution of this research project may represent a relatively narrow perspective on a specific phenomenon within the overall context of OBPO.

vi. *Limitations of the Data Collected in the Case Studies*

Limitations associated with potential cultural and English language bias, and through selection of a relatively limited number of in-depth case studies, have already been noted above. Recording and transcribing of interviews may also have resulted in some interview subjects being inhibited and/or nervous, and hence guarded or restricted in their responses to interview questions.

Selection of interview subjects is described in Chapter Four, section 4.4 above, and it is highly likely that the process of selection introduced some bias into the data collected. The research design aimed at achieving a cross-section of interview subjects at multiple levels through the organisations under study (i.e. senior executives, middle level or supervisory managers and front line staff involved in OBPO activity). Selection of interview subjects was approached on a planned basis, but it was also essential to take guidance from knowledgeable sources within the organisations themselves. Some interview subjects were recommended by their managers or peers as being particularly knowledgeable about the area under study, while other interview subjects “self-selected” on the basis that they heard about the research and offered to contribute their insights. Those who volunteered (self-selected) were often extremely knowledgeable and also passionately interested or committed to the success of the activities being researched.

<sup>46</sup>Throughout the longitudinal case studies, organisational change was underway in each of the case studies, resulting in many interview subjects taking on new roles and in some cases leaving the organisations under study. This level of organisational change introduced some limitations in the collection of longitudinal data as much corporate memory was lost in the process of organisational change.

*vii. Limitations in coding of data gathered through in-depth case studies*

The approach adopted to coding of data gathered in the in-depth case studies has been described in Chapter Four, section 4.5.5. The in-depth longitudinal case studies resulted in a rich data set being gathered, but inevitably, the nature of the coding process means that it is possible, indeed likely, that some errors were made in the process of coding this rich data. Generally, axial coding of data involved a member of the supervisory team, the author and another PhD student discussing and reaching agreement on data coding. While consensus among three observers does not eliminate the possibility of coding errors, it would seem to increase confidence in the reliability of data coding.

The peer review process for papers presented at conferences and subsequently published in proceedings and journals also generated questions that resulted in the author confirming some aspects of the data coding with the original interview subjects.

*viii. Limitations and possible biases in interpretation*

The multiple, longitudinal case study approach adopted in this research project has resulted in the collection of a rich data set, and hence there is a requirement for the process described by Miles and Huberman (1984) as “data reduction”. This refers to the process of selecting, simplifying, abstracting and transforming the raw case data. As noted by Dube and Pare (2003), during the data reduction process, the researcher’s background, experience and prior assumptions are likely to influence both the selection of interview material, events and documents and also their interpretation.

*ix. Selection of Reference Theories*

The theoretical perspectives applied to this research (particularly for the purpose of deriving testable propositions that were used to collect data from the in-depth case studies) were primarily Transaction Cost Economics and Institutional Theory. Some use was also made of Relational Exchange Theory and Resource Based View of the firm. Given that other researchers (for example, Dibbern, Goles, Hirschheim & Jayatilaka, 2004; Saxena & Bharadwaj, 2009) have identified more than 10 separate theoretical lenses, drawn from

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<sup>46</sup> Penter et al., (2008, p28) op. cit.

economics, organisational theory, management and marketing, through which outsourcing can be viewed, selection of theoretical perspectives invariably imposes limitations on the data being collected via the case studies.

Lacity et al., (2011b) argue that the application of theoretical lenses from outside the field of ITO/BPO research is itself a limitation, and that there is a need for researchers to develop endogenous BPO theory.

## **7.7 FUTURE RESEARCH**

This research has focused on OBPO involving tasks and activities that are classified as “knowledge-intensive services”, and other researchers variously refer to as “advanced services” or “knowledge process outsourcing”. Characteristics of knowledge-intensive services are that they involve tasks of high complexity and require that staff in the OBPO service provider exercise a high level of discretionary judgement. Such knowledge-intensive services are frequently hard to codify and require the transfer of significant tacit knowledge. There are also a number of interdependencies between the different stakeholders involved in the process. To succeed with OBPO of knowledge-intensive services, effective communication, integration and coordination of actors located in different countries and cultures is essential in order that all parties involved operate in a coherent and efficient manner (Jensen et al., (2013); Elia et al., (2015).

In this research, it has been argued that the selection of a captive centre governance mode appears to offer significant advantages for OBPO involving knowledge-intensive services. This research has sought to identify the value proposition delivered by OBPO captive centres in terms of their strengths in communication and transfer of tacit knowledge and in coordination of value chain interdependencies across diverse countries and cultures.

Future research could focus on more precisely defining the characteristics of activities that are classified as knowledge-intensive or advanced services, with a view to more precisely understanding their characteristics in terms of requirements for tacit knowledge transfer, exercise of discretionary judgement and interdependencies across the value chain.

As has been noted by Oshri and van Uhm (2012), research into captive centres is still in its infancy, and another future opportunity is to build upon this research by further investigating the precise value proposition offered by captive centres, and whether and how this value proposition can be replicated by arms-length contracting arrangements.

In particular, it is suggested that future research might investigate the precise relationships between (i) specific characteristics of various categories of knowledge-intensive services, and

(ii) the value proposition that has been developed for OBPO captive centres, and (iii) management of perceived cultural differences between client companies' home locations and specific OBPO locations.

In this research, the importance of senior management commitment and leadership to achieving successful OBPO has been identified as a significant success factor. The case studies reported in this research have highlighted the characteristics and contribution of a small number of senior leaders who were identified through the case studies. Future research might look in more detail at the contribution of senior leaders and top management teams (TMT) and how different leadership styles can be applied to bring about successful OBPO.

Returning again to the suggestions of Oshri and van Uhm (2012), future research could focus on more longitudinal studies of OBPO captive centres. In particular, adopting a strategy perspective by considering how and why senior management teams evaluate the returns that are being delivered by their captive centre investments, and the nature of changes in tasks and functions for OBPO and captive centre locations. The eight specific case studies analysed and reported in this research also provide opportunities for future research, as it would undoubtedly provide significant additional insight to return to these case studies after an interval of 2-3 years to evaluate what changes had occurred in OBPO strategy and results being obtained, and thus benefit further from the longitudinal nature of these cases.

In this research, the role of organisational learning and capability in achieving successful OBPO has been highlighted, and future research might consider in more detail why some companies appear more adept at capturing and disseminating OBPO knowledge and learning (Mihalache & Mihalache, 2016). In particular, the governance arrangements between the OBPO captive centre and its parent company, and the extent to which these arrangements facilitate rapid organisational learning and capability development may be a valuable future research direction.

Finally, the limitations of this research that are outlined in section 7.6 above also provide opportunities for further research, particularly in terms of case studies of client companies from non-English-speaking environments (e.g. Spanish, French, German, Dutch, Danish, etc.) and to OBPO destinations other than Asia (i.e. India and the Philippines). Similarly, additional case study research using methods other than qualitative analysis in the positivist philosophy is also an opportunity for future research.

## **7.8 CHAPTER SUMMARY**

This Chapter commences with an overview of the research before moving to a discussion in section 7.4 of major findings, including answers obtained to the primary and secondary

research questions. A key objective for this research was to identify critical success factors in OBPO, and to develop a framework that could provide useful guidance to managers. Noting that the captive model for conducting OBPO has been under-researched, another key objective was to investigate the nature of the value proposition that captive centres deliver to the parent company. Accordingly, the primary research question was to identify the key factors that contribute to the success of OBPO by Australian and international organisations to service providers located in India and the Philippines.

A positivist qualitative research methodology utilizing a case study approach was adopted because a key objective was to identify critical success factors for management of OBPO, and hence increase predictive understanding of the OBPO phenomenon. A qualitative research design based on multiple (eight) case studies was seen as the most appropriate way to obtain empirical evidence in order to make an original contribution to knowledge.

A research framework was applied to develop propositions that were incorporated into a case study protocol and a series of interview scripts. Four underpinning theories were applied to develop propositions tested in the case studies; transaction cost economics (TCE), Resource Based View of the firm (RBV), Institutional Theory and organizational learning. Data was collected through site visits, interviews and review of archival documents made available by case study participants.

Then follows a discussion in section 7.5 of both the theoretical contribution of the research and its implications for practicing managers. A primary theoretical contribution arises from developing a detailed framework of critical success factors for management of OBPO. Another key theoretical contribution is to have recognized the economic scale of OBPO captive centres and their continuing persistence as an OBPO engagement model. The value proposition of captive centres has also been analysed in some detail. A practical contribution arises through identification of the particular strengths of the captive model in OBPO that can be described as knowledge-intensive services.

Section 7.6 provides a summary of the limitations of this research while section 7.7 discusses opportunities for future research, which notes that research into OBPO captive centres is still at a very early stage. Hence, there is an opportunity to investigate further the precise value proposition offered by captive centres especially in terms of their strengths in communication and transfer of tacit knowledge and coordination of value chain interdependencies across diverse countries and cultures.

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## APPENDICES

### Appendix 1

### Case study and interview protocol



# Curtin

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## Case Study Protocol

## And

## Research Instrument

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Prepared by: Kevan Penter

Date: June 2008\*

\*The Case Study protocol has been through successive revisions during the research project, and has regularly been updated. It was first prepared in June 2006, and this version represents the protocol as it was in June 2008 when some follow up interviews were conducted. The protocol was reviewed and updated in August 2017.

## 1 GENERAL SECTION

This section provides an overview of the research project in terms of the:

- Objectives of the research project;
- Potential value of the research to practising managers and to academia; and
- Research methods that will be used to conduct phases 2 and 3 of the project.

### 1.1 Overview of Research Project

It is the global scale of the Business Process Outsourcing (BPO) phenomenon that makes this both an interesting and important research topic. For practitioner executives in many companies, offshore BPO (OBPO) has been identified as offering “tremendous opportunities to drive business value” (Lacity, Willcocks & Rottman, 2008); hence it is an option that must be evaluated and implemented successfully in order to meet shareholder expectations.

However, the relative scarcity of academic research has meant that decision-makers have had to proceed on faith, or rely on information from outsourcing vendors and consultants (who may not be disinterested parties). This involves significant risk because reversing a poor strategic choice involves major switching costs and will be far slower than the path into the initial outsourcing decision (Rouse & Corbitt, 2007; Augustin, Heinzl & Dibbern, 2010).

It is also common to find both academic and practitioner literature referring to relatively high rates of failure and management dissatisfaction with results of OITO/OBPO decisions (see for example Rottman & Lacity, 2006; Hatonen & Eriksson, 2009). These findings suggest that offshore ITO/BPO research provides insufficient guidance in designing effective OBPO strategy.

As noted by Hatonen and Eriksson (2009), two fundamental research gaps from the perspective of practicing managers involve determining how success in OBPO should be measured, and then understanding the factors (determinants) that contribute to successful management of OBPO. This research has sought to address those two gaps and also others associated with OBPO.

Therefore, a fundamental research objective was to identify factors that contribute to success in offshore business process outsourcing, and develop a framework that could provide guidance to managers. Noting that the captive model for offshore BPO continues to be the most common and also the least researched, a key gap that this research aims to address is the nature of the value proposition that captive centres deliver to the parent company.

The primary research question is as follows:



*“What are the key factors that contribute to the success of offshore business process outsourcing by Australian and international organisations to service providers located in India and the Philippines?”*

Since an aim of the research is to bridge a gap between management practice and emerging academic theory, a research framework relevant to practitioners involved with OBPO strategic and investment decisions has been developed. The research framework has been based on a Critical Success Factors (CSF) approach. CSF are defined as those areas of activity, generally few in number, in which positive results will ensure successful business outcomes (Bullen & Rockart, 1981). Generally, CSF will be specific to business context, and have also been characterised as “things that must go right”, or those factors where favourable results are absolutely necessary to achieve satisfactory business outcomes (Bullen & Rockart, 1981).

Secondary research questions include the following:

- *What is the size and capability of the OBPO and OITO service provider industry in India and the Philippines, actual and projected growth rates and likely evolution over the next three years?*
- *What is relative value and importance of Australian firms as customers?*
- *What are the business drivers that cause Australian and international firms to consider OBPO to service providers located in India?*
- *What is the definition of “success” for Australian and international firms that outsource Business Processes to firms located in India, and how accurately can success be measured?*
- *What are the key risks associated with OBPO to service providers located in India?*

The definition of offshore business process outsourcing (OBPO) adopted for this research project is as follows:

*Offshore Business Process Outsourcing (OBPO) refers to the disaggregation and global sourcing of both administrative and more knowledge-intensive business processes that are essential components of a company’s value chain (i.e. are essential to achieving its mission).*

As far as the author can establish, this research represents the first effort to develop a comprehensive CSF model for OBPO combining the perspectives of both clients and suppliers

and with a particular focus on the offshore outsourcing of knowledge-intensive, higher value-added activities.

Referring to BPO, Lacity, Willcocks and Rottman (2008) report that senior executives are facing a “dizzying set of evolving choices” in terms of sourcing locations, engagement models and service offerings by suppliers and maintenance of an appropriate in-house capabilities. It is reported that this wide range of choices becomes a source of “constant conflict” in the advice presented by industry consultants and by ITO/BPO literature, a view supported by Cullen et al. (2005) who report that organisations now face an “inestimable number of choices”.

Hence, the research results may be of interest to Australian and international managers, government policy makers, academics in business and information systems management disciplines and their counterparts in India and other countries that are prominent destinations for offshore BPO.

## 1.2 Research Methodology

In order to address the different research questions posed in this study a combination of both interpretive and positivist research methodologies will be used. It is anticipated that by using a combination of methods, a better understanding of the issues will result. The data analysed in both the interpretive and positivist phases will be gathered using case study methodologies. The research will include five phases of implementation:

Phase	Research Design	Purpose	Paradigm
<b>Phase 1:</b>	Literature Review and develop preliminary research model	Exploratory	Interpretive
<b>Phase 2:</b>	Exploratory field study including interviews	Exploratory	Interpretive
<b>Phase 3:</b>	Multiple longitudinal case studies	Exploratory and Explanatory	Interpretive and Positivist
<b>Phase 4:</b>	Analysing of data to develop and validate critical success factors framework	Explanatory	Positivist
<b>Phase 5:</b>	Testing the framework through conference and journal papers	Explanatory	Positivist

The Case Study Protocol outlined in this paper focuses on phase two and phase three of this research project. According to Yin (1994, p63), “the protocol is a major tactic in increasing

the *reliability* of case study research and is intended to guide the investigator in carrying out the case study". This protocol outlines the procedures and guidelines that will govern the conduct of the researcher and the research project in the case study phase. The protocol also contains the instrument (indicative interview script) that will be used to collect data for the research from the companies and their executives that are participating in the case studies. It consists of questions directed towards establishing the main factors that are essential for successful management of OBPO, and may also be helpful in providing guidance as to the archival documents (such as company presentations, announcements and reports) that may provide the researcher with additional information or insights relevant to the matters discussed in interviews. It is acknowledged by the researcher that interview questions may need to be modified on the basis of the business context of each participating company. Hence, interview scripts will vary between companies according to business context. In addition the protocol also contains a guide for the data analysis that will be performed once the data has been collected.

## **2 PROCEDURES**

This section outlines the procedures that will govern the conduct of the researcher during the course of the data collection. This section specifically details: (a) the selection and number of cases, (b) the manner in which organisations will be contacted, (c) confidentiality of data collected and (d) scheduling and length of interviews with company representatives.

### **Initial approach to companies and their OBPO service providers**

#### **2.1.1 Selection of Cases**

The selection process that has been adopted for this case study research is one of theoretical sampling. The research will focus on the relationship between a client company (i.e. the company that is doing the outsourcing) and its OBPO service provider. The intention is for the research to focus on client companies that are of different sizes and ownership structures, and that operate in a range of industry sectors. It is further intended that the case studies cover a range of business processes, although it is expected that these business processes being outsourced will generally fit the definition of "knowledge-intensive services".

To further clarify case selection, it is planned to conduct an initial exploratory field study that will obtain more detail on the activities that are involved in OBPO. The exploratory field study will involve semi-structured interviews with staff who can be characterised as "key informants" in that they have detailed knowledge of a client company's OBPO activities and strategy.

### **2.1.2 Number of Cases**

According to Eisenhardt (1989 p537), the goal of theoretical sampling is to choose cases which offer a sufficient range of variations to replicate or extend the emergent theory, and it also makes sense to choose cases in which the strategy and management of OBPO is “transparently observable”. It is planned to conduct longitudinal case studies extending over a period of 18 months to 36 months in order that emerging outcomes can be observed, and that any changes in OBPO strategy can also be understood and tracked. Theoretical sampling also allows sufficient diversity in the longitudinal case studies to enhance the generalisability of the OBPO critical success factors model that is being developed.

To allow for both “Within Case” and “Cross Case” analysis it is planned to conduct five client company case studies and three OBPO service provider case studies (for an aggregate total of eight case studies). Current indications are that the longitudinal case studies will range across the industry sectors of banking and finance, airlines and telecommunications. It is envisaged that the spread of client company participants will include large and small companies and a variety of ownership structures. In similar manner, it is envisaged that the selection of OBPO service providers will include both captive centre and arms-length contracting engagement models.

### **2.1.3 Establishing Contact**

Interviews will be conducted with key individuals involved in the OBPO process and may include any of the following designations; Chief Executive Officers (CEO), Chief Information Officers (CIO), Chief Financial Officers (CFO) and managers responsible for establishing and managing OBPO contracts and relationships. In general, the preferred approach is that the key contact for each of the companies participating in case studies will be a “key informant”; that is, a manager or executive who has significant knowledge of the OBPO operations to be able to brief and guide the researcher. It is also anticipated that the key informant will be able to provide access to relevant archival documentation in respect to the OBPO strategy, activities and outcomes.

Where possible, it is also planned to conduct interviews with more specialist OBPO operational staff who can provide the researcher with insights into “OBPO in action”. It is also requested that “key informants in the client company case studies facilitate relevant contacts in OBPO service providers, noting that these may be captive centres.

It is intended that initial contacts will be first established informally with each organisation. A meeting will be arranged with a designated contact person(s) during which an outline of the research, its purpose and proposed research methods will be provided. It is expected that the

contact person(s) will have a number of questions relating to the research project. To assist interviewees in answering the questions and providing requested data, a copy of this protocol will be provided when the initial contact is made.

During the initial meeting the researcher will seek approval to initiate a more formal contact through a letter requesting the company's agreement to participate in the research project by means of a longitudinal case study (see appendix two for an example of the follow up letter used in the British Airways case study).

#### **2.1.4 Confidentiality and Agency Approval**

This research will necessitate the collection of confidential information concerning the participating companies. All normal safeguards to ensure confidentiality and protection of the company's data will be followed. Data will be collected and stored according to guidelines for research as published at <http://www.health.gov.au/nhmrc/research/general/nhmrcave.htm>. These are the general guidelines for research as adopted and recommended by Curtin University of Technology. If necessary, statements or declarations of confidentiality will also be signed by the researcher and supervisor if requested.

#### **2.1.5 Archival Data**

Where possible, case study participants will be asked to provide archival data in the form of documents and power point presentations that will help clarify and provide further information on the nature of OBPO arrangements, and which may assist in preparation for interviews that are to be conducted. The forms of archival data that may be made available include:

- Company annual reports
- Media releases and public domain presentations
- Internal reports and presentations
- Relevant contractual documentation, specifications, service level agreements, performance reports and procedure manuals relating to OBPO activities
- Any other documents which may offer insight into OBPO activities and their associated business objectives and/or OBPO outcomes being achieved

## **2.2 Scheduling of Interviews**

Once the organisation has agreed to participate, the researcher will make contact to arrange a suitable time that is convenient to the interview participants. To facilitate communication, contact with the organisation will be made through the initial contact person(s).

Site visits may also be requested with the organisation concerned prior to the interview sessions, the purpose of these visits being to provide the researcher with a clearer picture of the environment being studied.

### **2.2.1 Length of Interview Sessions**

Interview sessions will generally take about 60 minutes. Follow-up interviews may need to be arranged where it was not possible to cover all of the questions detailed in the interview schedule.

### **2.2.2 Timeframe**

It is planned that initial interviews will be conducted over the next 12 months, starting in May 2006. Interview summaries will be supplied in MS WORD format, either in hard copy or electronically via email. Feedback and transcripts from the interviews will be provided to participants for checking within 2 weeks after the interview was conducted. Generally, the interview summaries will be despatched by email (if agreeable to the participant), and feedback may be provided by return email with (for example) required revisions marked up in the MS WORD document.

The researcher will be available when required for follow up discussions by telephone or email, or for follow up interviews.

As the intention is to conduct longitudinal in-depth case studies, it is likely that the researcher will request follow up interviews, probably at an interval of 12-18 months after the initial interview.

## **3 RESEARCH INSTRUMENT**

Section 3 contains the research instrument (also known as an interview script) that will be used to conduct the data collection via interviews and documentary evidence. The Interview Script has a number of sub-sections, each of which contains questions directed towards addressing a specific component of the critical success factors model that is being developed.

If the interview participant has archival documentation that is relevant to the interview script these can be provided either in advance of the interview, or at time of interview.

It is acknowledged that business context will vary by company, and that not all questions in the interview script may be relevant to the circumstances of a particular company or individual interview participants.

### **3.1 RESPONDENT PERSONAL DETAILS**

Questions relating to the person interviewed:

What is your job title?

Where are you based?

What was your involvement in the development or implementation of the OBPO activities?

What is your level of experience with the current OBPO arrangements, or with previous OBPO activities?

Do you regularly meet with, or visit, the OBPO service provider?

### **3.2 INTRODUCTION /STRATEGY AND SUCCESS OF OUTSOURCING**

**The key objective of this section is to determine:**

- What business processes are subject to OBPO, and how were these selected.
- What were the objectives of OBPO and were/are they being achieved.
- Identify key success factors that were encountered, and any challenges or problems.

#### **1. Business Context and Strategy**

It would be appreciated if we could start the interview by reviewing the overall business context in which OBPO is being conducted.

What overall timeframe is relevant to your OBPO arrangements?

How important, in terms of your overall company strategy, was your OBPO strategy? Where does it fit into the “big picture”?

How have you explained OBPO strategy to your stakeholders, including to staff? What are general attitudes within your company to OBPO?

How was the OBPO managed? How much of your personal time did you spend on this strategy?

To what extent did OBPO contribute to the success of your company's overall strategy and results?

How has your OBPO strategy changed? Do you expect it to change in the next 3 years?

Is your company likely to expand OBPO in the next 1-3 years?

## **2. Evaluating business benefits from OBPO**

How successful do you consider your OBPO strategy?

How did you measure success? What is your definition of success?

Can you describe any changes to your OBPO success measures or business model?

Can you identify the Critical Success Factors for your OBPO strategy? Will these CSF change over the next 3 years?

Can you sum up the business benefits that your company has realised through conducting OBPO?

Are there any aspects of the OBPO strategy that you think could have been done differently, or could have achieved better results?

To what extent have other companies in the same industry adopted similar OBPO strategy?

Have they selected similar locations for OBPO?

How did your company make the decision as to where to source OBPO?

## **3. Planning and developing your OBPO strategy**

To what extent did you plan your OBPO strategy on a top down basis, and to what extent was it an emergent strategy?

Did you set metrics, objectives and Key Performance Indicators for offshore BPO?

What were these KPI's, objectives or metrics? To what extent were they achieved?

Was the offshore BPO really just about cost reduction, or did you also have other goals. How would you prioritise your OBPO goals?

Does your company have a clear "definition of success" for OBPO, and can you summarise?

Can we also discuss the following more detailed questions:

Why did your company enter into (or continue with) OBPO?

What business processes did you outsource?

Do you have multiple OBPO contracts? Can you tell me about them?



When did the OBPO service provider take over the activity (date)?

What are the contract provisions for extension or renewal?

What is the term of the contract and when is it due for renewal or extension?

Were/are the OBPO contract objectives clear and measurable?

Were all these objectives achieved?

Did you have any objectives that were not achieved, why not?

Did you adopt a formal OBPO performance management system? If yes, how successful was your PMS, and how was it established?

### **3.3 OBPO IN ACTION IN YOUR COMPANY**

Questions in this section focus on the factors that are important in actually conducting OBPO and delivering business benefits.

#### **4. Choice of offshore location and engagement model**

In which countries does your company engage in OBPO? How were these countries selected?

Did you conduct regular evaluations of locations other than India as potential destinations for offshore BPO?

What do you think are the most important factors influencing selection of OBPO location, and choice of OBPO engagement model (e.g. captive or arms-length contracting)?

Where in India (or elsewhere) do you undertake OBPO? How were the locations selected? Do you consider that these location choices are optimal, or do they need to be reviewed? How regularly is selection of OBPO location reviewed?

Does your company conduct OBPO using

- i. An offshore captive centre
- ii. A third party service provider
- iii. Combination of both
- iv. Some other arrangement (e.g. joint venture)

Can you explain the rationale for the selection of OBPO engagement model?

If you have an OBPO captive centre, what do you think are some of the key success factors in managing an offshore BPO facility?

What is the length of your company's experience in OBPO?

Can you estimate how many staff are working on your OBPO activities in the offshore location?

### **5. Managing Cultural Differences in Offshore BPO**

To what extent were there challenges associated with managing cultural differences in OBPO? Can you describe how these challenges manifested themselves?

What governance arrangements (formal or informal) did you have in place regarding OBPO (and how did this change over time)?

Do you have a formal knowledge management plan with your OBPO service provider or captive centre? How do you facilitate transfer of knowledge, and how successful has this been in practice?

What were the organisational arrangements for managing OBPO (and how did this change over time)?

How do you select and train managers to be involved in OBPO? Do you consider that this approach has been successful?

Who are the leaders of your company's OBPO activities? How were they selected and where are they located?

### **6. Selection of business processes for OBPO?**

Can you describe the types of business processes that are handled by your OBPO service provider?

Do these business processes involve contact by the OBPO service provider personnel with your end customers?

If YES, what types of services are provided to your end customers? How do you measure success with these processes?

Do you have any information that you can share on the reaction of your end customers?

Does your company conduct both OITO and OBPO? Do you follow a similar or different strategy for OITO and OBPO? What has been your company's length of experience with both?

Do you have any guidelines for selection of business processes for OBPO?

### **7. Senior management engagement in your OBPO strategy and management**

Who are the internal leaders of your company's OBPO strategy and activity? What are their reporting lines?

To what extent is your OBPO strategy defined and endorsed by your company's senior management (e.g. Board, CEO, CFO, etc.)?

What information or reports on OBPO activity and performance goes to

- a. Board
- b. CEP
- c. Senior Management Team

To what extent would you say that your senior management team are involved in driving OBPO strategy and outcomes?

Approximately how much time would your CEO and members of the senior management team spend on OBPO matters and issues?

Has your CEO or senior leadership team given any presentations to external stakeholders (e.g. shareholders) on your OBPO strategy?

Who would be involved in reviewing your company's OBPO strategy and outcomes? Do you have an established process for regular review, and at what time intervals are reviews conducted?

When did the last review of OBPO strategy take place, and what was the outcome?

## **8. Formal and informal governance of OBPO**

This section contains a number of questions that deal with governance of OBPO in your company, including decision rights that may be transferred to your OBPO service provider and also management of the relationship with the OBPO service provider.

### **i. Governance arrangements**

Can you describe the nature of the governance arrangements for OBPO in your company? Are these formal or informal? Who is involved? To what extent do representatives of the OBPO service provider participate in governance?

What is the nature of the engagement model with your OBPO service provider(s) – captive or arms-length contract?

Does your company have a formal Service Level Agreement (SLA) – or multiple SLAs – with your OBPO service provider?

Are the decision rights of the OBPO service provider clearly specified?

How are any conflicts, disagreements or disputes with the OBPO service provider managed?

Do you have specific arrangements for resolving any conflicts with the OBPO service provider?

Does the OBPO service provider have a forum or mechanism in which to raise conflicts or disagreements?

Who are the executives in your company and in the OBPO service provider who are responsible for managing the ongoing relationship?

Is there a joint executive forum or meeting involving senior executives from your company and from the OBPO service provider?

If your company needed to change the OBPO arrangements with your OBPO service provider(s), how would this be approached?

## **ii. Contracts with OBPO service provider**

What type of pricing arrangements are used in your contracts with OBPO service providers? Do you have a formal Performance Management System (PMS) with your OBPO service provider? Does the OBPO contracts include provision for incentives or penalties? Have these ever been applied?

How regularly do you meet with your OBPO service provider(s) to review performance against SLAs and/or the contract?

Have you conducted any audits or formal reviews of your OBPO outcomes or arrangements?

## **iii. Relationship management**

The purpose of this sub-section to explore the nature of the relationship between your company and your OBPO service provider(s):

- How would you characterise the nature of the relationship that exists and its importance?
- What important issues in the relationship need to be actively managed?
- What role does the contract play in the relationship and how are disputes handled?

- How important is the management of this relationship? How is it managed within the company?
- What operational difficulties (if any) have you encountered?

What role does a formal contract play in the relationship? Have you ever had to refer, enforce it, or use it anyway in the relationship so far?

Has your relationship with the OBPO service provider(s) changed since the start of the contract? In what way?

Is there a connection between the relationship, performance management system and contract? If yes, what is the connection?

## **9. Risk Management**

Can you advise what level of risk assessment was conducted prior to embarking upon (or expanding) OBPO?

Does your company have a formal risk management methodology (can you please summarise), and was this applied to OBPO activities?

Do you have an active risk management plan for your company's OBPO activities, and if so, how regularly is risk assessed and the plan updated?

How regularly do you review your OBPO risks, and is this done on a formal or informal basis? Who is involved?

Do you discuss OBPO risk management with your OBPO service provider?

Did your company's assessment of risk influence your selection of OBPO location or engagement model?

How risky do you consider OBPO in overall terms, and what do you see as the key risks to be managed?

### **3.4 ANY OTHER MATTERS RELEVANT TO OBPO**

In conclusion, how would you rate the overall success of OBPO in your company?

What do you consider to be the critical success factors for conduction OBPO (list as many as you think relevant).

Can you identify what you consider to be the top 3-6 success factors (i.e. what must go right in order to succeed)?

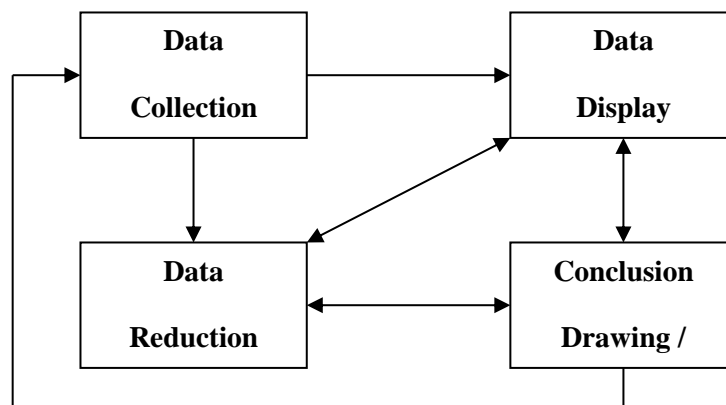
Are there any other matters that you think are relevant to the research project that have not been covered in the interview?

#### 4 QUALITATIVE DATA ANALYSIS TO DRAW INSIGHTS FROM THE CASE STUDIES

This section outlines the procedures and general rules that will be used to analyse the qualitative data collected in this research. The data analysis method that will be used is based on a structured data display approach developed by Miles and Huberman (1994). This method of analysis was selected because it increases the reliability and validity of the qualitative analysis and results by:

- i. Providing the researcher with a uniform and consistent approach to follow in the analysis of each case;
- ii. Limiting interviewer bias in the analysis of transcripts; and
- iii. Providing links from the data collected via interviews to the results of the analysis and conclusions reached in the research (i.e. answers to research questions).

According to Miles and Huberman (1994), the analysis of qualitative data consists of three interactive activities: data reduction; data display and conclusion, drawing / verification activities (see figure 1 below):



**Figure 1: Components of Data Analysis: Interactive Model (Source: Miles and Huberman)**

## **4.1 Qualitative data collection and analysis**

The raw data that will be subject to qualitative analysis is comprised of the interview summaries from interviews conducted with participants in the case studies, archival data supplied by those companies and any relevant and accurate public domain material. The latter would include media articles, any articles or published papers and information obtained from company and industry association web sites. One of the characteristics of case study research is that it generates a comprehensive and rich collection of data (usually much larger than can be published). Hence, one of the primary data analysis tasks for the researcher is to utilise techniques that enable a large volume of data to be reduced to summaries (“data reduction”) without losing accuracy and insights, and without introducing sources of bias.

Analysis of the interview transcripts and other documents collected in this phase of the research will focus primarily on the research questions identified and the variables outlined in the research framework that has been developed from the literature. This analysis will include both ‘within [individual] case’ and ‘cross case’ analysis. The following is a summary of the key steps in the analysis process, documents used and methods that will be used to reduce, summarise, classify and interpret the data.

### **4.1.1 Interview Summaries**

The data analysis phase commences with the Interview Summary, which represents the raw data that will be collected to assist in answering the research questions. Each interview conducted will be taped and then written up into an Interview Summary that will be returned to the person interviewed for their verification and checking as to the accuracy of the summary, and to confirm that the responses provided in the interview has been captured accurately. Feedback received will then be incorporated in the final Interview Summary.

### **4.1.2 Multiple interviews in each longitudinal case study**

As this research project involves longitudinal case studies, there is both a need and an opportunity to conduct multiple interviews over an extended period of time (e.g. 18 months – 36 months), and to interview multiple subjects within each company. In some cases there may be several interviews, spaced over a period of time, with the same interview subject.

Where the same interview subject is interviewed on multiple occasions, it will usually be for the purpose of identifying and tracking changes that have occurred in OBPO strategy and performance, and/or to fill in gaps in the researcher’s understanding of the case.

#### **4.1.3 Incorporation of archival documentation into longitudinal case studies**

Companies are requested to provide the researcher with archival documents such as OBPO contracts, service level agreements, annual reports, performance monitoring reports etc. Each of these documents will be used to provide overall business context for the case study, and to ensure that interview questions address matters that will provide the greatest insight. As a general principle, archival documents made available early in the case study will allow the researcher to obtain background information and hence keep face-to-face interviews shorter and directly relevant to the most important insights and success factors.

#### **4.1.4 Case study summary and follow up interviews and telephone calls**

As multiple interviews will be conducted in each individual case study, with the interviews taking place at different times over an extended period, it is expected that there will be some gaps, inconsistencies and possibly conflicting recollections between interview participants. Where they are available, archival documentation can assist in resolving inconsistencies and allowing the researcher to develop a deeper understanding of the case study. In some cases, it is anticipated that follow up interviews and/or telephone calls and emails may be helpful in filling gaps in the researchers understanding or resolving inconsistencies. Follow up telephone calls, interviews and emails will be kept as short as possible.

#### **4.1.5 Research Propositions**

To facilitate identification of OBPO critical success factors, a detailed research framework has been developed from the literature, and a series of propositions have been developed. The objective is to use the data gathered in the longitudinal case studies to test and confirm or contradict these research propositions. In this way, a model incorporating confirmed critical success factors can be developed as an output from the research.

#### **4.1.6 Coding and analysis of interview summaries**

To facilitate analysis of the interview data, to test the propositions that form part of the research framework and ultimately to answer the research questions, a series of concepts and themes have been identified. These concepts and themes will be tested and possibly verified by coding the interview summaries to confirm or otherwise the propositions. These codes are based on the research questions and the variables identified in the conceptual model. They are used in the process of data reduction and are usually attached to short blocks of text, quotes or sentences.



#### **4.1.7 Coding of Interview Summaries to obtain key conclusions and insights**

The Interview Summary will go through a process of coding to identify key conclusions and insights that can subsequently be used to answer the research questions and develop an OBPO critical success factors model.

Coding involves identification of short blocks of text or quotes which are selected because they confirm or otherwise one or more of the propositions that form part of the overall research framework for this project. The objective of the coding is to observe patterns and conclusions that may be common across each of the longitudinal case studies. Coding will be carried out by the researcher and discussed with the supervisor.

#### **4.1.8 Case Study Report and Publication**

Each case study will be written up and summarised in a case study report. These will later be incorporated into the final research document. In addition, some of these case studies may be compiled into articles for publication at academic conferences and/or in journals.

It is not intended that any market-sensitive information would be included in published articles, nor is it intended that the articles would contain confidential information. This will be discussed further with company representatives when articles are being prepared for publication.

**Appendix 2                      Letter to interview participant, Sir Rod Eddington**

21 May 2006

Sir Rod Eddington  
Chairman, Australia and New Zealand  
JPMorgan  
Level 30, Optus Centre  
367 Collins Street  
MELBOURNE VIC 3000

**SUBJECT:**    Participation in Curtin Business School Research Project on  
Offshore Outsourcing of Business Processes by Australian Firms

Dear Sir Rod,

We are writing to you to formally request your participation in a research project that is being undertaken within the School of Information Systems at Curtin University Business School, located in Perth, Western Australia. The title of the research project is "Offshore Outsourcing of Business Processes by Australian Firms to Service Providers in India." This research is being conducted by Curtin University as part of a broader research project entitled "Analysis of Effective Outsourcing Processes for Australian Organisations" with funding from an Australian Research Council Industry Linkage Grant.

For Australian enterprises, offshore outsourcing of business processes is a new, largely unresearched area that is putting great pressure on Australian managers. To date, very little research evidence has been accumulated on offshore outsourcing, and on identifying the key factors that can contribute to the success or otherwise of Business Process Outsourcing (BPO) by Australian firms. The aim of the Research Project is to establish a framework for providing advice and guidance to Australian managers considering offshore BPO to Indian service providers.

The information gathered in this research will be of significant importance to both Australian firms and their managers that are considering or participating in offshore outsourcing, and also to Government policy makers and academic staff involved in business and information systems management.

Your participation in this research would involve formal interviews and where possible, the provision of archival data that would help clarify and explain issues discussed in the interviews. These interviews will be conducted with key individuals who are (or have been) involved in the outsourcing process and the evaluation of the results obtained to date. Please find attached a brief summary that details the research questions that will be addressed and the initial conceptual model identified. Also attached is a copy of the research instrument that will be used in the interview.

We are also seeking the assistance and cooperation of key members of your senior management team; these might include Chief Information Officer, Chief Financial Officer and General Manager(s) (or suitable proxies) who we hope will provide some of their time for interview, and contribute their experience to analysing the important management issues and developing a successful framework for making decisions about offshore outsourcing. Their contribution would be considered invaluable to the research project, and participants may also find the results useful as they will be available once analysis is complete.

The information that you provide will be held in the strictest of confidence and all normal safeguards to ensure confidentiality and protection of your agency will be followed. If required, a statement or declaration of confidentiality would also be signed by the researcher and supervisor.

If you have any questions, please contact Kevan Penter on 042 837 2887 or email address: [kevan.penter@cbs.curtin.edu.au](mailto:kevan.penter@cbs.curtin.edu.au).

Your participation and support in this research project would be greatly appreciated and we look forward to meeting with you soon.

Yours faithfully

Kevan Penter  
Researcher  
Curtin University of Technology

Professor Graham Pervan  
Supervisor  
Curtin University of Technology

### **Appendix 3 Interview Questions for Sir Rod Eddington**

#### **Business Context and Strategy**

It would be appreciated if we could start the interview by reviewing the overall business context during the period that you were CEO from British Airways from 2000-2005.

From the outside it appears to have been an extremely turbulent period. When you commenced as CEO, British Airways was facing a series of business difficulties (including IR issues), then you had 9/11 and a number of follow on security incidents, the Iraq War, a climate of generally weak demand especially for higher yield business travel, steeply rising fuel costs, etc.. And yet by 2005, British Airways was the world's most profitable airline. How was this turnaround achieved?

How important, in terms of overall business strategy for British Airways, was the IT and Business Process outsourcing to India? Where did it fit into the "big picture"? Where did offshore outsourcing to India fit into "Future Size and Shape"?

How was the offshore IT and BP outsourcing managed? How much of your personal time as CEO did you spend on this strategy?

In some analysts briefings and reports released by British Airways there is reference to taking "complexity out of the business"? Can you elaborate, and to what extent did offshore outsourcing to India contribute?

To what extent was the offshore IT and BP outsourcing strategy of interest to the Board? I assume that the Board would have been involved in some major milestones such as the decision to sell a majority stake in WNS to Warburg Pincus?

In terms of your overall outsourcing strategy to India, it appears that British Airways approached IT outsourcing in a different manner to BP outsourcing. For example, published reports suggest that IT outsourcing was handled through framework contracts with NIIT Technologies and TCS, whereas with BPO, British Airways formed its own "captive operation" in Mumbai and Pune that later became WNS. What were the factors that influenced these different approaches?

#### **Evaluating Business Benefits from Offshore ITO and BPO to India**

How successful do you consider British Airways offshore ITO and BPO strategy to India?

How did you measure success? What is your definition of success?

Can you describe how ITO and BPO strategy and business model changed during the period that you were CEO?

Can you identify the Critical Success Factors for British Airways offshore ITO and BPO strategy? Will these CSF change over the next 3 years?

Can you sum up the business benefits that British Airways realised through conducting IT and BP outsourcing to India?

Are there any aspects of the IT and BP outsourcing strategy that you think could have been done differently, or could have achieved better results?

To what extent have other airlines followed the same IT and BP outsourcing strategy in India?

### **Planning and developing British Airways Offshore ITO and BPO strategy**

To what extent did you plan British Airways' offshore BPO strategy on a top down basis, and to what extent was it an emergent strategy?

Did you set metrics, objectives and Key Performance Indicators for offshore BPO?

What were these KPI's, objectives or metrics? To what extent were they achieved?

Was the offshore BPO really just about cost reduction, especially during "Future Size and Shape"?

### **Managing Cultural Differences in Offshore BPO**

To what extent were there management challenges associated with managing a wholly-owned BPO centre in India?

Did you conduct regular evaluations of locations other than India as potential destinations for offshore BPO?

What do you think are some of the key success factors in managing an offshore BPO facility?

What governance arrangements (formal or informal) did you have in place regarding WNS (and how did this change over time)?

What were the organisational arrangements for WNS (and how did this change over time)?

## **Appendix 4                      British Airways Offshore ITO & BPO to India**

### **Interview Notes with Sir Rod Eddington**

[Consolidated set of notes obtained from 3 interviews and several follow up telephone calls]

#### **Business Context and Strategy**

*It would be appreciated if we could start the interview by reviewing the overall business context during the period that you were CEO from British Airways from 2000-2005.*

Well it turned out to be a difficult and turbulent period and you seem to have done your research and covered a number of the major issues in that period pretty well. The structural fundamentals of the airline business were bad, particularly in terms of how and where British Airways operated. A number of other European carriers were either owned by, or heavily influenced by, their national governments. And several of the US airlines were going through Chapter 11. So what this meant was that there were a lot of airline seats being flown on BA's key routes where the owners of those seats (i.e. the competing airlines) were driving their business to generate cash, and were less concerned than we were at BA to earn a reasonable return for shareholders.

The airline industry is heavily regulated, particularly around issues such as landing slots at major hubs like Heathrow which is just central to the whole BA business, and also at major US airports which were important to BA because a major part of our business is high yield business customers travelling in/out of the United Kingdom.

And as you note, these structural difficulties in the overall airline industry structure were then overlaid with a series of events that just could not have been forecast or foreseen.

In 2005 in particular I used to say in some of my presentations to the shareholder and investment community "I have had a lot of luck in this job as BA CEO, all of it bad!"

*From the outside it appears to have been an extremely turbulent period. When you commenced as CEO, British Airways was facing a series of business difficulties (including IR issues), then you had 9/11 and a number of follow on security incidents, the Iraq War, a climate of generally weak demand especially for higher yield business travel, steeply rising fuel costs, etc.. And yet by 2005, British Airways was the world's most profitable airline. How was this turnaround achieved?*

Between 1996 and 2001, British Airways had slipped a long way down the rankings in terms of operating profitability of major airlines. In 1996 we were close to the most profitable major airline, but by 2001 we ranked 21<sup>st</sup> in the list of airlines by annual operating profit. In other words, we were at the bottom of the list in 2001. We had gone from nearly first to worst in terms of operating profit.

There were a number of reasons why we went from first to worst in the period 1996-2001. We grew very vigorously but lost control of our business. Firstly, too much complexity, far too many aeroplane types. Secondly, the rise in Europe and elsewhere of the no-frills carriers.

When I first started as CEO, I spent 3 months just getting a feel for the issues and problems. I spoke to management, staff, passengers, major corporate customers, regulators, BA suppliers, unions. Anyone who was willing to give me 20 minutes to talk about BA. I asked them “what do we do well”, “where do we need to improve”, “what do you like or dislike about BA”. And what I found was that there was a remarkable consensus about what was needed to change and improve the BA business. The problem was that there was just a lot of rigidity in attitudes and views among stakeholders that previous attempts at making the necessary changes and improvements hadn’t gained traction.

One of the advantages, if you want to use that term, of these difficulties facing the airline industry during the first part of this period was that they had the effect of concentrating minds on the imperative need for changes if BA was to survive as a business. At one point early in my tenure as CEO, British Airways was losing 2 million pounds a day. Well nobody was going to argue that was a sustainable way to operate.

We launched the “Future Size and Shape” program that aimed to reduce costs by 650 million pounds per annum through making operational efficiencies. In fact, the program ended up delivering closer to a billion pounds per annum in savings. Along the way, we reduced staff numbers by 13,000 through attrition and voluntary redundancies. I think the high level numbers were that we lowered net costs by about 25%, reduced staff numbers by 20%, retired older and less efficient aircraft and reduced our passenger capacity by 9% while re-orienting our route structure to focus on sectors that offered revenue growth and profitability. We came out of “Future Size and Shape” with productivity improved by at least 20%. In the period from 2001-2005, profitability improved 7-fold. We had gone from “worst to first” in terms of annual operating profit.

Some of the changes that we had to make included radical changes to pricing (particularly in response to the low cost carriers), and to automate the distribution arrangements through which BA sold tickets. BA had relied heavily on traditional distribution networks like travel agents. But these traditional arrangements were very costly and did not address the needs of some particularly important segments such as frequent travellers. We also launched a totally new concept in the form of World Traveller Plus (premium economy) and New Club World (long-haul business class with flat beds).

*How important, in terms of overall business strategy for British Airways, was the IT and Business Process outsourcing to India? Where did it fit into the “big picture”? Where did offshore outsourcing to India fit into “Future Size and Shape”?*

It was very important. One of the changes that I made was to give the manager in charge of IT at BA (i.e. CIO) a “seat at the top table” in terms of BA internal organisation structure. IT was critical to delivering on “Future Size and Shape”. One of my management principles is that “there are no IT projects, there are only business improvement projects enabled by IT”. In my view, having the CIO at the top table was essential to ensure that IT was aligned with the business strategy that was reflected in “Future Size and Shape”.

Part of the Future Size and Shape revolution came about through the use of Information Technology, particularly to simplify and automate our business. We couldn't use the web intelligently and bring more business online until we massively simplified fare types and the rules that went with it.

In 2001, BA had an ineffective web site. In 2005 (my last year as CEO) ba.com attracted some 82 million visits either for booking or customer service, a good result when you think that we carried 40 million passengers that year. By 2005 BA Executive Club (frequent flyer) members could do all of their transactions online and we had the highest use of e-tickets of any major carrier outside the US.

Having IT and BPO resources in India working for BA was critical. To achieve the goals that we had set for integrating IT resources to simplify the business meant that we were interested in leveraging IT skills and knowledge and harvesting intellectual capital wherever it was located and it was obvious that part of the solution was to look offshore for that intellectual capital.

We knew India well, we had been flying there for 75 years. We understood the aspirations of people in India and their Governments. We recognised that competition for world-class IT and BP resources is substantial and we recognised from the outset that India provided competent, capable and highly motivated people who were performing exceptionally well at business critical IT-enabled solutions.

With BPO, the time zone difference worked for us. With India 4.5 hours ahead of London and working multiple shifts this meant that there were occasions when we could send a problem to WNS (say in passenger revenue accounting) at the end of the working day in the UK and then find that when we arrived for work the next day in the UK that WNS had already found a solution. In that respect, having a “captive” BPO in India reduced our cycle time and improved productivity irrespective of any labour cost arbitrage.



*How was the offshore IT and BP outsourcing managed? How much of your personal time as CEO did you spend on this strategy?*

Not much. My job as CEO was basically to ensure that we had competent people in place to manage these operations and to reach agreement with those managers on the business goals to be achieved, and then to let them get on with it. I did meet with the senior team at WNS at least once per year and also with the senior people in our major ITO and BPO suppliers. I found those conversations (for example with Rajendra Pawar Chairman of NIIT, etc.) very valuable because these are world class IT leaders and hence their insights are very valuable in helping to understand what can be achieved through IT enabled business solutions.

*In some analysts briefings and reports released by British Airways there is reference to taking “complexity out of the business”? Can you elaborate, and to what extent did offshore outsourcing to India contribute?*

Yes, to some extent this was about taking cost out of the business and responding to the challenge from low-cost carriers that typically have a simple and streamlined operating model, but more importantly it was about improving customer satisfaction. To deliver a complex product consistently is very difficult. And when you fail to deliver (i.e. when you don't deliver on customer expectations) that leads to complaints and the need for follow up remedial action, which adds to costs. I have often said that complexity kills. Simplifying the business was at the heart of everything we did in the period 2001-2005. And yes, offshore outsourcing did contribute in a major way to simplifying the business.

*To what extent was the offshore IT and BP outsourcing strategy of interest to the Board? I assume that the Board would have been involved in some major milestones such as the decision to sell a majority stake in WNS to Warburg Pincus?*

The Board was focused on strategy for the business. So we took to the Board the plan to evolve WNS from a captive operation through various stages to an independent, listed entity and the Board signed off on the plan. Execution was down to management, and the timing was dependent on a range of factors including the state of equity markets.

*In terms of your overall outsourcing strategy to India, it appears that British Airways approached IT outsourcing in a different manner to BP outsourcing. For example, published reports suggest that IT outsourcing was handled through framework contracts with NIIT Technologies and TCS, whereas with BPO, British Airways formed its own “captive operation” in Mumbai and Pune that later became WNS. What were the factors that influenced these different approaches?*

Yes you are correct. With IT Outsourcing that was an activity with which British Airways had a long standing involvement and we felt pretty comfortable extending into offshore IT

outsourcing. We started offshore ITO in a small way and it extended pretty rapidly when we saw the quality of business outcomes being delivered by our offshore ITO partners. BA had a significant ITO contract that was centred in Newcastle in the UK and in principle for a business like BA with longstanding experience in ITO, there is not a major difference between managing an ITO contract delivered from Newcastle or from Mumbai or Chennai.

The BPO to WNS was handled differently, and decisions regarding the start up of WNS as a captive operation were before my time. But I understand that the initial business drivers for establishing a captive operation were around the need to exercise control over tasks that either touched BA customers (like performing back office support for Executive Club members) or were fundamental to our commercial relationships with other airlines (like passenger revenue accounting).

### **Evaluating Business Benefits from Offshore ITO and BPO to India**

*How successful do you consider British Airways offshore ITO and BPO strategy to India?*

It was a critical success factor in the turnaround of the business. I have mentioned previously the contributions of the staff in India, both in WNS and also in our outsourcing partners, to cycle time reduction, productivity improvement and business systems thought leadership.

We could not have moved as quickly to get the airline back to profitability without this contribution from our offshore ITO and BPO.

*How did you measure success? What is your definition of success?*

As CEO I defined success in terms of the broad business goals that we had set for the airline. This included simplifying many of the systems and processes through which customers interacted with BA. We wanted to make these processes and interfaces so simple that customers could do it for themselves. To achieve this goal required that we integrate effective IT systems and IT-enabled business processes into all aspects of our business.

We needed to reduce distribution costs from around 15%-20% to well down into single figures, and we brought distribution costs down to 7.5% of revenue in my last year as CEO, in fact, we reduced distribution costs in absolute terms by almost 60% through IT-enabled systems and processes.

In 2001 British Airways had a very disappointing web site. By 2005, our Executive Club members (BA Frequent Flyer scheme) could do all of their transactions online, and 83% of Executive Club transactions were being delivered online. As mentioned previously, BA also had the highest use of e-tickets outside the US airlines. A key point is that these changes were very positive for customer satisfaction and ba.com was a hit with our customers and at the

heart of the customer service proposition. We also had a similar program, called employee self-service, running within the company and used by 97% of BA staff including me.

Similarly, we needed to continuously improve our passenger revenue accounting systems and processes, in order to reduce cycle time required to collect payments from other airlines, to improve accuracy, stop revenue leakage and to eliminate rework resulting from errors. WNS played a major role in achieving these goals.

*Can you describe how ITO and BPO strategy and business model changed during the period that you were CEO?*

The overall strategy didn't change much. Of course, viewed from outside some of the changes such as the sell-down of WNS may have appeared to be dramatic changes.

Again, in terms of broad business goals, in the period from 2001-2005 BA debt came down by 55% from 6.6 billion GBP at the peak to 2.9 billion in 2005. We realised about 2 billion pounds from asset sales, and the sell down of WNS was part of that process. By 2002, it was obvious that WNS would be better served with an owner other than BA. In a sense, the success of WNS meant that it had outgrown its status as a captive. It was performing successfully BPO tasks for other airlines, and BA had supported that growth because higher volumes for WNS meant cost reductions for BA through economies of scale.

*Can you identify the Critical Success Factors for British Airways offshore ITO and BPO strategy? Will these CSF change over the next 3 years?*

The basic CSF is to deliver satisfactory investment returns to our shareholders and this requires that we achieve a 10% operating margin and also maximise productivity of our assets. When I finished as CEO in 2005 BA margins had reached 6.9% (the best since 1997) so still a fair way to go to reach that target of 10% margin. We need to continue to simplify the business and reduce the cost base.

BA needs to maintain a relentless focus on costs and productivity improvement and in that respect I don't see much change in the offshore ITO and BPO success factors. I see these activities as being critical to BA's journey to a leaner, fitter and more profitable business.

Regarding the next 3 years, I will refer you to the presentations that I delivered to investors and shareholders in my final year as CEO. Those presentations identified 3 areas that were, if you like, critical success factors going forward. Firstly, continuing to lower the cost base. Secondly, investing in people and products in order to remain competitive, and thirdly the move of British Airways Heathrow operations into the new Terminal 5, which represents a once in a lifetime opportunity for the people of BA to develop the efficient working practices that we need to have in the 21<sup>st</sup> Century.

One of the Terminal 5 imperatives is that BA develops a single set of processes and practices, one way of working. I expect that our BPO partners will have a significant contribution to make to the process redesign as they have developed considerable expertise in airline Business Processes. That is one of the advantages that flows from having WNS doing BPO for multiple airlines. They have developed considerable expertise and in some cases customised tools for identifying and implementing best practice in airline business processes.

*Can you sum up the business benefits that British Airways realised through conducting IT and BP outsourcing to India?*

As previously discussed, cycle time reduction, productivity improvement and access to high quality and highly motivated staff. There's some real advantages in having a global workforce. You must always take expertise and good ideas wherever you can find them.

*Are there any aspects of the IT and BP outsourcing strategy that you think could have been done differently, or could have achieved better results?*

With hindsight, I think that we got most of the large pieces of the offshoring strategy right. We were learning as we went along. I want to emphasise that we did not have a top-down and clear cut offshoring strategy planned out years in advance. The key business driver was to simplify and automate our business which meant getting access to the right intellectual capital at the right price wherever on the globe this was located.

Some aspects of the offshoring strategy emerged in response to our overall business context and to market conditions prevalent at the time. The sell-off of WNS is a case in point. Faced with the difficulties in 2001-2005 we did have the objective of reducing BA gearing levels. We also had a potential problem in this period with some concern expressed about the possibility of unfunded staff pension liabilities. We did have a program of asset sales to simplify and streamline the business.

When we became aware that there was an appetite in capital markets for investment in offshore BPO companies, we decided to go down the path of divesting our 100% ownership in WNS.

*To what extent have other airlines followed the same IT and BP outsourcing strategy in India?*

I am not sure that they necessarily have followed BA, but certainly a number of major network airlines now have a strong offshore ITO/BPO strategy that involves India. There are a number of business areas where airlines have generally co-operated rather than competed. Examples would include engineering, safety, passenger revenue accounting and lost luggage tracing and recovery. So when BA was approached by other airlines who saw the initial success of WNS, we saw advantages in collaboration to improve efficiency across the whole airline industry

and of course this eventually resulted in unit cost reductions for BA because of scale efficiencies from higher volumes.

It also meant that WNS was able to develop and leverage its knowledge of best-practice Business Process Management in the airline industry.

In a similar manner, BA has been able to obtain significant improvements in maintenance, repair and overhaul (MRO) outcomes from a system now known as SWIFT MRO that we developed in conjunction with our offshore partner TCS. Basically this is a customised airline industry MRO application built on top of the SAP enterprise resource planning system. In areas such as engineering, maintenance and safety, BA has for a long period of time provided services on a commercial basis to other airlines and it is planned that BA and TCS will offer the SWIFT MRO solution to other airlines.

### **Planning and developing British Airways Offshore ITO and BPO strategy**

*To what extent did you plan British Airways' offshore BPO strategy on a top down basis, and to what extent was it an emergent strategy?*

That is a good question, and I would say it was a combination of both. As we worked through Future Size and Shape, there were strong elements of a planned strategy. But as I mentioned before, changing business context is also a key factor and there were aspects that we learnt as we went along. The SWIFT MRO opportunity that we developed with our partner TCS is a case in point where we developed a solution to meet a specific BA requirement and then found that there was a broader commercial opportunity in the airline industry.

*Did you set metrics, objectives and Key Performance Indicators for offshore BPO?*

From my perspective, it wasn't about detailed metrics and key performance indicators, although of course we have metrics and KPI's in spades across the BA business. As CEO, my focus on the offshore BPO business was on making sure that the partners were absolutely clear about the deliverables that BA expected from them, and also about ensuring that the offshore BPO partners understood and were aligned with the strategic drivers for the BA business.

*What were these KPI's, objectives or metrics? To what extent were they achieved?*

[Answer above made this question redundant.]

*Was the offshore BPO really just about cost reduction, especially during "Future Size and Shape"?*

No definitely not just about cost reduction, although as I have mentioned cost reduction was (and continues to be) an absolutely fundamental business driver for BA.

Two key benefits were cycle time reduction (we couldn't have moved as fast or as effectively with Future Size & Shape) without the capability that we obtained from offshore delivery and also productivity improvement. There are many aspects to productivity improvement but part of it was the quality of ideas and innovation that we developed in conjunction with the offshore partners.

As I have mentioned before, the offshore BPO/ITO strategy was about getting access to the right intellectual capital at the right price, and leveraging the knowledge and insights that our partners had developed in IT-intensive processes in the airline industry.

### **Managing Cultural Differences in Offshore BPO**

*To what extent were there management challenges associated with managing a wholly-owned BPO centre in India?*

Yes, there were challenges associated with managing offshore BPO at a captive centre in India. There was a cultural aspect to this, given that BA is a European-headquartered global business. But I think BA found it easier in India than we would have in many other locations. We had a long-standing presence in India, one that we were committed to and seeking to expand in terms of the number of BA flights serving India. In the captive centre environment, I think that BA understood India fairly well and understood people's aspirations.

We took a number of steps to build camaraderie and team spirit at WNS. We rotated long-serving and experienced BA managers through WNS and we had a program of staff swaps. I think it helped that in both WNS and on the BA side that we had a stable and experienced management team responsible for the relationship between BA and WNS and for delivering the required business outcomes.

We also took the view, that whilst WNS was a wholly-owned BA venture, as far as possible the working environment at WNS should mirror that at other BA locations including in the form of systems and office fit out. I am a great believer in the view that if you provide people with good working conditions, set high standards and trust them to do a good job then the vast majority of people come to work wanting to do a good job and contribute to a successful enterprise.

There were few problems (at least that I aware of) in terms of acceptance within BA of WNS output and contribution. We had no problems with BA staff who I think saw WNS as a strong contributor to the turnaround and success of BA and the BA unions were pretty sensible.

*Did you conduct regular evaluations of locations other than India as potential destinations for offshore BPO?*

I would say that we fairly regularly asked ourselves the question as to where we could locate the best intellectual capital in the world at the best price, and since part of the turnaround at BA in the period 2001-2005 was deployment of IT-enhanced solutions then we needed to locate that type of skill. And throughout that period, I think we were convinced that India had a lot to offer and was our preferred location.

It probably also helped that BA had a long-standing presence in India and that we were seeking to expand our flights to and from India and our presence in that rapidly growing market.

*What do you think are some of the key success factors in managing an offshore BPO facility?*

Well one thing is for sure, you need to work at it really hard. I think a key success factor is ensuring that the leadership team in the offshore centre has absolute clarity in what is expected of them, what they have to deliver and how their work is aligned with the fundamental drivers of the business. And to achieve this is hard work, but it is also hard work with other groups of employees as well.

Also, you need to have a relentless focus on taking costs out of the business and that means simplification (i.e. process improvement) and you can never declare victory because it's never over.

## **Appendix 5                      Coding Sheet Rod Eddington Interviews**

### **BPO Strategy**

Linked to overall business strategy

Specific to business context, and subject to change over time as business imperatives changed

Combination of planned and emergent strategy (more the latter)

### **Definition of offshore BPO Success**

Cost reduction (relentless focus on costs)

Business Process Improvement

Cycle time reduction

Productivity improvement

Access to right intellectual capital at right price

### **Engagement Strategy**

Arms-length contracts for ITO originally, then also for BPO

Lengthy relationships with ITO providers (NIIT and TCS); described as “partnering”

BPO approached differently to ITO (at least for first 6 years of BPO)

WNS originally a captive BPO for 6 years, then progressive sell down

Chose captive originally because of importance of control over interactions with customer and suppliers (see also opaque indifference)

### **Choice of Offshore BPO/ITO Location**

Global sourcing perspective, India preferred for ITO/BPO

BA had a level of comfort with India [low “perceived distance” from UK to India]

India had “world-class capability in IT-intensive services”

BA seeking to expand airline presence in India, tap into market

### **Managing Cultural Distance**

Described as “hard work”

BA had been flying to India for many years

Experienced managers on both sides of relationship

Importance of relevant experience, stable management team



Replicated global (predominantly UK) working environment at WNS

Rotated long-serving BA managers to WNS, staff swaps

### **Nature of Business Processes Outsourced to WNS**

Generally higher order processes requiring airline industry knowledge (e.g. passenger revenue accounting), back office support for frequent flyer programs

WNS globally recognised for skills and tools in airline industry business process management

### **Creating Opaque Indifference**

BA focus was to simplify and automate customer transactions via ba.com

Careful selection of business processes to be transferred to WNS (primarily back office)

BPO originally via captive operation due to need to establish (control) opaque indifference

### **Organisational Learning**

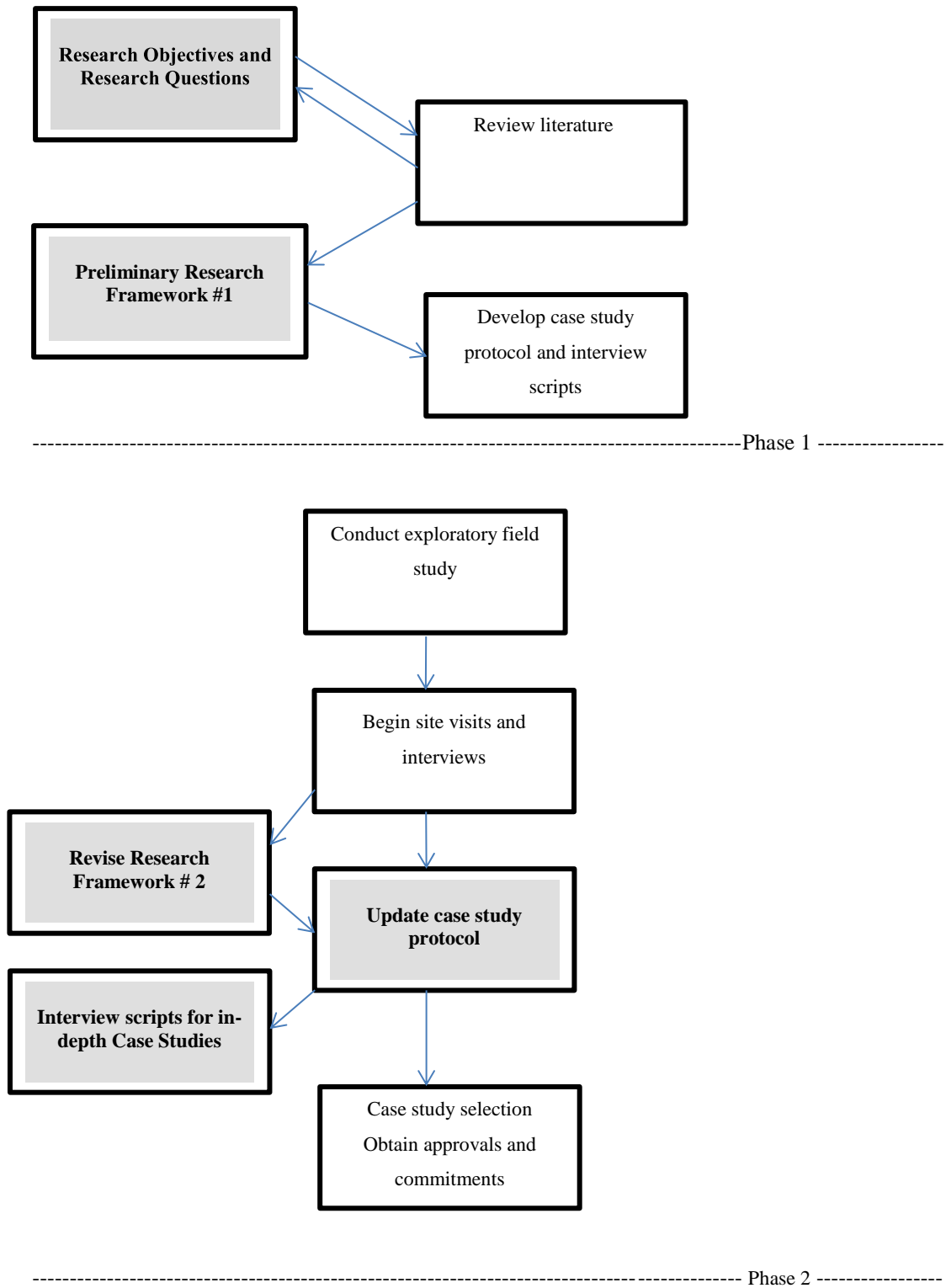
Drew upon ITO experience when moving to OITO and OBPO

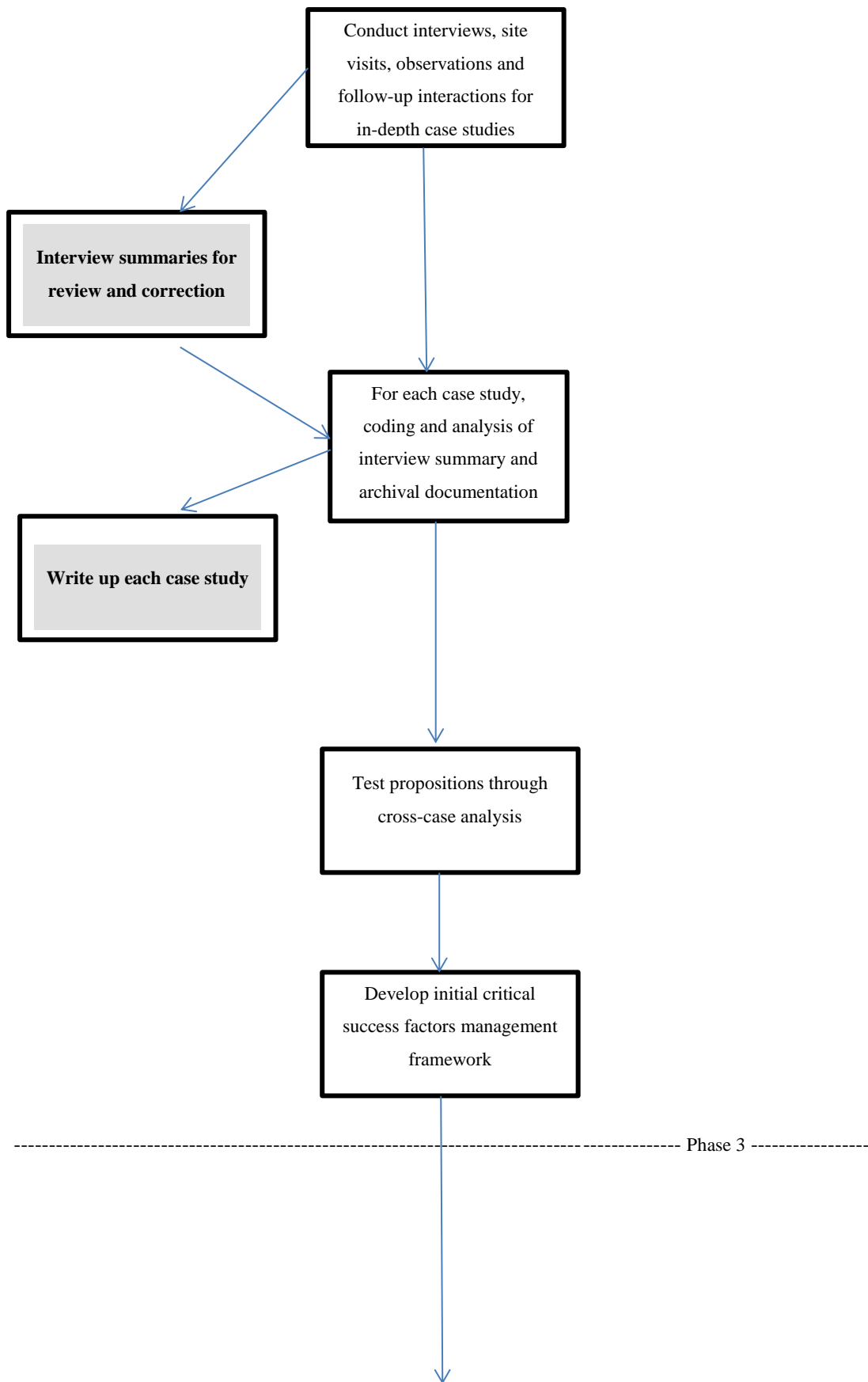
Saw OBPO as different to OITO (hence captive model for OBPO)

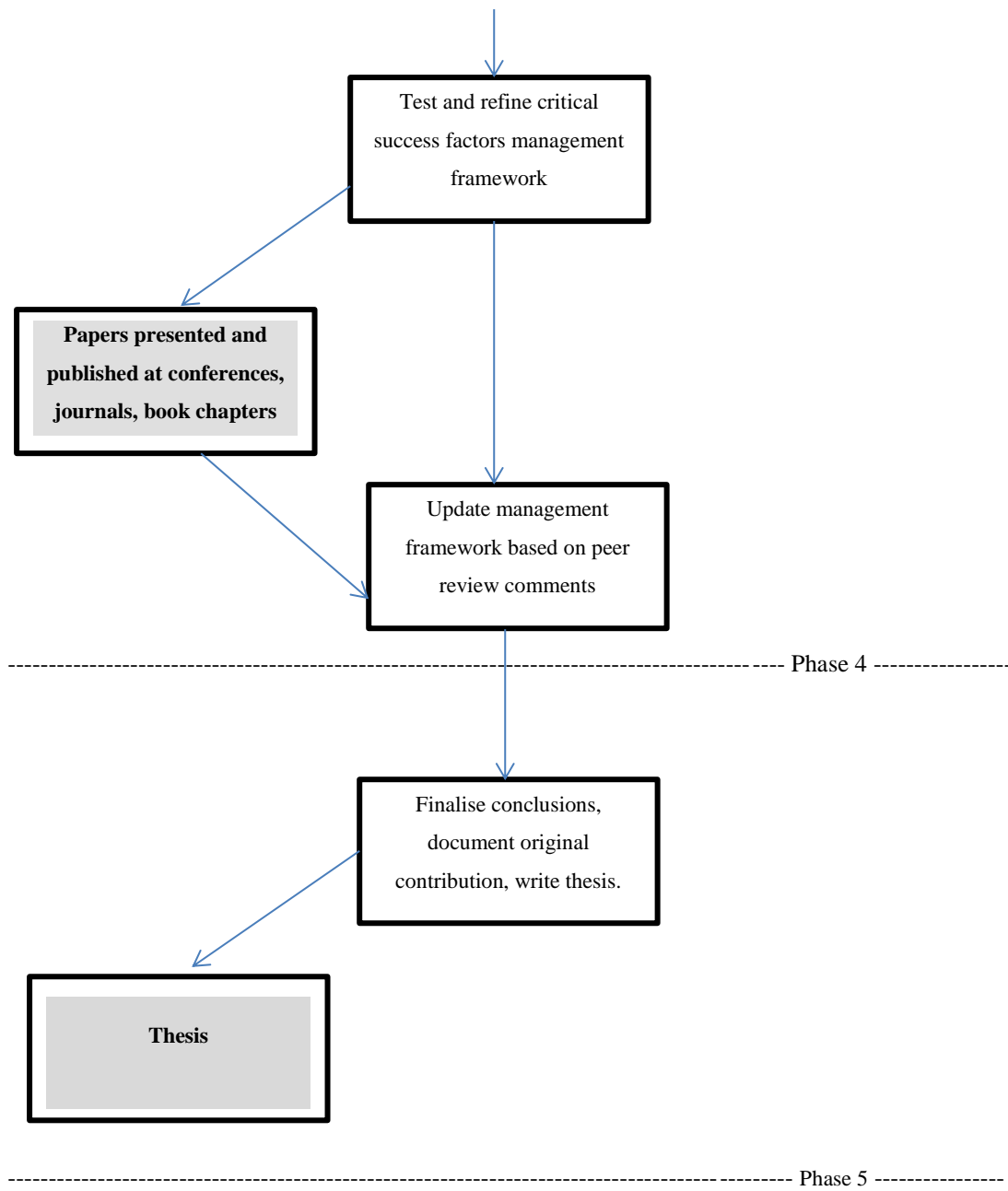
Learning as they went along

Explicit strategy to capture learning and embed through organisation

## Appendix 6 Research methodology summary diagram

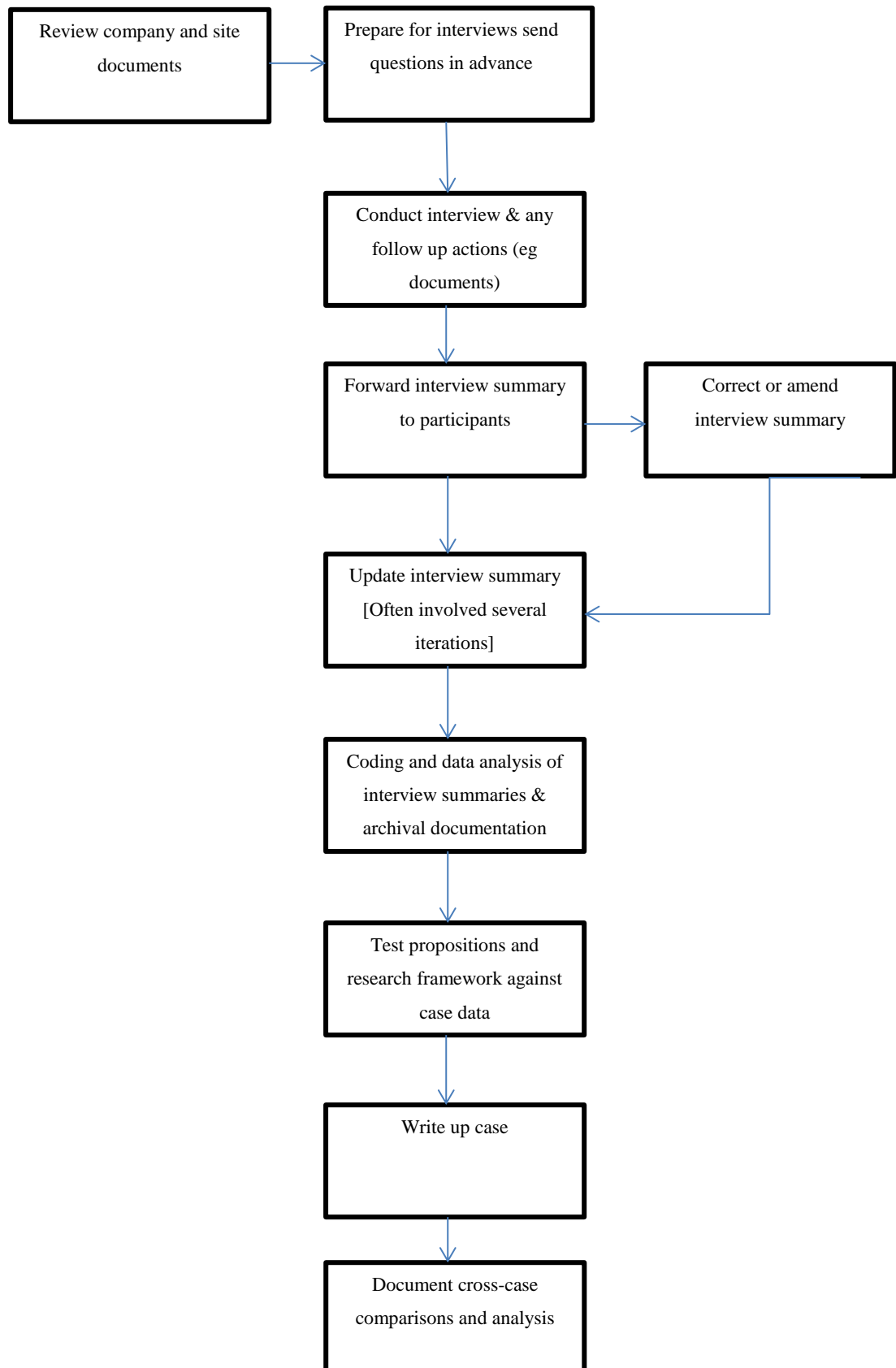






## Appendix 7

## Qualitative data analysis for longitudinal case studies



## **Appendix 8 Advantages of India as an OBPO destination**

### **Executive Summary**

Noting that choice of OBPO location has been identified in this research as a critical success factor for OBPO, the purpose of this Appendix is to analyse the advantages that India offers as an OBPO destination. Given the scale and growth of the OBPO and OITO service provider industry in India, it is somewhat surprising that there has been relatively little systematic research into India's competitive advantages as an OBPO destination (Bhattacharjee & Chakrabarti, 2015). This analysis draws upon data published by NASSCOM, Bhattacharjee and Chakrabarti (2015), Joshi and Mudigonda (2008) and Raman (2007).

It is clear that India dominates as a destination for OBPO, and data reported by Bhattacharjee and Chakrabarti (2015), which in turn drew upon comprehensive statistics held by NASSCOM, reported that in financial year 2012 the Indian ITO-BPO industry had aggregate revenues that went above \$100 billion USD for the first time. Focusing just on OBPO and excluding OITO, elsewhere in this research, the author has estimated that the OBPO industry in India in FY16 represented some \$85 billion USD to \$90 billion USD, taking into account both captive centres and third-party service providers. Towards the end of 2017, NASSCOM reported that direct employment in the ITO-BPO industry was around 4.2 million full-time equivalent (FTE) staff, with 1.2 million FTE employed in captive centres. It has been reported that India holds about 55% market share in the global OITO-OBPO market (Bhattacharjee & Chakrabarti, 2015) and represents about 8% of India's GDP.

### **Drivers of India's OBPO-OITO competitive advantage**

#### **i. Labour cost arbitrage**

NASSCOM reports that labour cost arbitrage continues to be fundamental to India's competitive advantage as an OBPO destination. This research has collected detailed data that is summarised in Chapter Three that confirms India's advantages in terms of labour cost arbitrage, which is also reinforced by two other factors discussed below; favourable resource endowments, and the experience and flexibility that has been gained by the Indian OBPO-OITO workforce over four decades of delivering successful business outcomes.

The quality of the Indian OBPO-OITO workforce and the dynamics of the industry are demonstrated by the progress that has been made by Indian-headquartered firms in making sizeable market share gains in higher end, knowledge intensive services.

## **ii. Favourable resource endowments**

Extending beyond simple labour cost arbitrage are the favorable resource endowments such as demographic complementarities (Asher & Nandy, 2007), English language competency and quality of graduates from leading educational institutions such as the Indian Institutes of Management and Indian Institutes of Technology. As noted by Asher and Nandy (2007) and Bhattacharjee and Chakrabarti (2015), 30% of the Indian workforce is between 18 – 25 years of age and a further 44% are between 25 – 30 years of age, while some 100 million Indians are fluent in English, the second largest global population after USA.

Efforts to maintain and improve the competitiveness of the Indian OBPO workforce through quality signaling (e.g. certification in CMMI Level 5), delivery excellence, process innovation and domain expertise have been key areas of focus, both for the major companies such as INFOSYS and the industry association NASSCOM (Bhattacharjee & Chakrabarti, 2015).

## **iii. Presence of an Indian diaspora**

The presence of a large Indian diaspora (e.g. in Silicon Valley in the USA) and also in the United Kingdom, Canada and Australia has provided substantial support for the Indian ITO-BPO industry, through knowledge, skills, social and financial capital. According to Bhattacharjee and Chakrabarti (2015), the Indian diaspora has acted as reputational and credibility intermediaries that has resulted in substantial opportunities for the industry.

## **iv. Low start-up costs boosting entrepreneurship**

Data collected for this research has found that the costs associated with setting up an OBPO contract or captive operation in India are relatively low. Even in major knowledge services clusters such as Bangalore, costs associated with office space, telecommunications access, hiring staff and obtaining the necessary permits are low.

Many of the leading OBPO-OITO firms, including INFOSYS, WIPRO and Mahindra were started by first generation entrepreneurs. In the past two decades, foreign and multinational companies (MNC) have found it reasonably straight forward and low cost to establish captive centres.

## **v. MNC's imparting institutional influence and positive externalities**

As is noted in Chapter One, a number of multinational companies (especially US-headquartered MNC's) commenced OBPO in India from the 1980s onward, including Texas Instruments, General Electric, American Express and British Airways. The success of these early adopters created a climate in which institutional forces encouraged mimetic behavior by other MNCs who joined the "rush" to India leading to explosive growth in the period 1998 - 2006 (Oshri & van Uhm, 2012).

The result of these institutional influences is noted in (for example) Bangalore where some 230 MNCs are reported by Bhattacharjee and Chakrabarti (2005) to have invested in research and development in telecommunications technology, integrated circuit design and other high value activities.

MNCs have contributed positive externalities towards the growth of the OBPO industry in India, in terms of knowledge spillovers, subcontracting and “demonstration effects” (Bhattacharjee & Chakrabarti, 2015). These positive externalities influenced the way that the major Indian-headquartered OBPO service providers such as TCS, INFOSYS and WIPRO operated.

#### **vi. Industry support**

The presence of related and supporting institutions has enhanced the growth of the Indian OBPO industry and the development of a mature and effective global ecosystem for supplying business services outsourcing. Two of the most important sources of support have been the industry association NASSCOM, and the high quality IITs and IIMs which have produced a large number of quality graduates with relevant technical skills and English language proficiency.

According to Bhattacharjee and Chakrabarti (2015), in financial year 2012 India turned out 4.4m tertiary education graduates, a significant proportion of which had skills needed in the OITO/OBPO industry thus ensuring a steady stream of internationally competitive labour. Sustaining India’s comparative advantage in OITO and OBPO is the well-documented contribution of the alumni of the Indian Institutes of Technology (IIT) and Indian Institutes of Management (IIM), which in turn leads to a factor recognized in the data collected in the case study research conducted by the author - the “enthusiasm and optimism” of Indian staff which in turn adds to motivation, so critical to optimal productivity.

Formed in 1988, the industry association NASSCOM has also proven to be particularly effective in promoting and strengthening the industry. A strength of NASSCOM has been the willingness of leaders of successful Indian OITO/OBPO companies to contribute their time and expertise to activities aimed at supporting the broader industry, and thus benefitting their competitors as well as their own firms. NASSCOM has also succeed admirably in proactively identifying threats and weaknesses in the OBPO/ITO industry sector and encouraging governments and the industry to take timely action in order to counter these threats.

Starting in 2007, NASSCOM identified five factors which needed to be strengthened in order to maintain the competitive advantage that India enjoyed in OITO and OBPO. The five factors identified by NASSCOM included:



- Augmenting talent supply
- Creating world-class infrastructure
- Strengthening information security
- Enhancing operational effectiveness
- Providing regulatory support

In particular, infrastructure in the form of airport and intra-city urban transport was seen an increasingly problematic factor that had the potential in the future to undermine the competitive advantage that India had developed in OITO and OBPO. NASSCOM has been remarkably successful in having its agenda for improving and strengthening the industry adopted by companies and national and state governments, with the result that each of the above risk factors has been addressed to a greater or lesser extent.

#### **vii. OBPO-OITO Industry structure in India**

The success of the Indian OITO-OBPO industry has been based on external demand from companies headquartered outside India, and owes little to domestic demand for these business services. As a consequence, the Indian industry was “born global”, and in terms of organisational learning, acquired the skills to compete and succeed globally from inception. This had important implications for the structure of the industry, which comprises over 15,000 supplier companies (Bhattacharjee & Chakrabarti, 2015). The industry shows a pyramidal structure, with 11 firms at the top, each with annual revenues greater than \$1 billion USD. The “top 11” are made up of the leading Indian-headquartered firms such as TCS, INFOSYS and WIPRO together with MNCs such as Accenture and IBM Global Services account for about 40% of industry revenue. The next 100 participating companies have annual revenue ranging from \$100m USD - \$1 billion USD, and account for a further 30% of industry revenue.

Two characteristics of the leading firms are the adoption of quality certifications (such as CMMI Level 5), and the ability to leverage a Global Delivery Model (GDM). The leading Indian-headquartered firms such as INFOSYS, WIPRO, TCS and WNS have proved particularly adept at leveraging GDM, and are reported by NASSCOM to have established over 600 global delivery centres in over 78 countries. The competitive success of the Indian suppliers has in turn drawn a response from MNC service providers such as Accenture, IBM and Hewlett Packard EDS, each of which has established very large-scale OBPO operations in India in order to access the labour cost arbitrage and favorable resource endowments enjoyed by their Indian-headquartered competitors.

The structure of the Indian OITO-OBPO industry has instilled fierce competition which has intensified in recent years (Bhattacharjee & Chakrabarti, 2015). The competition is both between the top tier rivals who offer integrated solutions encompassing the entire ITO/BPO value chain, and also between tiers, as mid-sized and smaller companies excel in niche services and vertical market segments. The nature of this industry competition has stimulated significant merger and acquisition (M & A) activity. Since 2011, Bhattacharjee and Chakrabarti (2015) report that M & A activity has been driven by firms seeking to obtain bundled OITO-OBPO capability, acquisition of vertical market and domain knowledge and to strengthen their intellectual property portfolios.

#### **viii. Government support**

Indian Governments at both the Union (national) and State levels have played a key role in the evolution of the OBPO-OITO industry in India. The national government gradually liberalized controls on the ITO/BPO sector from the mid-1980s, and then from the early 1990s encouraged the development of software technology parks that offered improved infrastructure, including high-speed data communications. When a severe balance of payments crisis hit the Indian economy in mid-1991, radical economic reforms were initiated that attracted MNCs to India and also made it easier for home-grown Indian OITO/OBPO service providers to compete.

As the OITO/OBPO industry grew as a proportion of India's GDP and as a creator of employment, successive governments have generally continued to take constructive action to remove barriers and facilitate competitiveness and growth.

#### **Is OBPO to India predominantly an English-speaking and North American phenomenon?**

Successful OBPO to India appears to be predominantly, but not exclusively, a phenomenon involving English-speaking countries (such as North America, United Kingdom and Australia). NASSCOM has reported that more than 75% of US Fortune 500 companies have engaged with Indian firms to source OITO and/or OBPO services. The total number of captive centres in India is reported by NASSCOM and Everest to exceed 825, with more than 75% (approximately 625 captives) operated by client companies headquartered in North America. If captives operated by client companies located in the United Kingdom and Australia are added to the total then it would almost certainly exceed 80% of captives. Hence, there appears to be statistical support for the proposition that India has greatest attraction as an OITO-OBPO destination for client companies headquartered in English-speaking countries.

### **Competitors to India as an OBPO destination**

While India has maintained its dominance in global sourcing of business services due to the maturity and sophistication of its OITO-OBPO ecosystem, the Philippines is able to replicate some of India's advantages, especially in terms of labour cost arbitrage and favorable factor endowments. Hence in certain niche market segments (such as OBPO services involving voice contact with end customers of the client company), the Philippines has been able to challenge India's leadership position.

Both the Indian OITO-OBPO industry and its counterparts in the Philippines have established strong customer footprints in North America, Australia and the UK where English is the *lingua franca* for client companies. For European client companies operating in languages other than English, near shoring to OBPO service providers in (for example) Central Europe continues to represent formidable competition to the Indian industries. In similar vein, for client companies headquartered in the USA and UK, near shoring to Canada and Ireland respectively also presents competition to the Indian industry.

### **Constraints on India's success as an OBPO destination**

While CMMI certification enhances client company trust in OBPO, end customer concerns about potential ethical differences (such as perceived corruption) can undermine trust in the OBPO relationship. Corruption is the abuse of entrusted power for private gain (Transparency International, 2008). Corruption has global consequences, being both a cause of poverty and a barrier to overcoming it (Singh and Ramamurti, 2007). As India's global OITO/OBPO companies continue to grow, they may act as a broom, sweeping corruption from the economic sphere (Singh and Ramamurti, 2007). While recent developments suggest grounds for optimism in the case of India, the country's ranking has actually declined in Transparency International's 2010 Corruption Perceptions Index (Transparency International 2011).

According to Transparency International's Bribe Payers Index (Transparency International, 2008), companies based in the significant OBPO countries of Brazil, Russia, India, the Philippines and China are perceived to routinely engage in bribery as part of international business. Referring to the impact of bribery and corruption in some OBPO locations, Aubert et al. (2011) have called for further research into "ethical distance" in offshore services outsourcing. The Bribe Payers Survey which forms part of the Bribe Payers Index (Transparency International, 2008), also found that information technology, and banking and finance (both major source industries for OBPO) were amongst the "cleanest" sectors, hence providing some grounds for optimism that OITO/OBPO companies can play a constructing role in reducing or eliminating corruption.

## Summary and conclusions

Data collected in the research suggests that India dominates the OITO and OBPO service provider market because of the following advantages:

- low-cost degree qualified and skilled labour
- experienced and successful industry with high quality work processes
- high rate of adoption of quality standards relevant to BPO services (e.g. SEI CMM, Six Sigma, etc.)
- English-speaking workforce
- “demographic dividend” offered by the relatively young average age of the workforce in India
- BPO/ITO industry structure in India
- presence of NASSCOM as an effective ITO and BPO industry association promoting high standards of performance and ethics with a philosophy of continuous improvement
- effective support from both Union and State Governments
- scalability (see also demographic complementarities referred to above)
- Indian legal system and commercial framework is compatible with expectations of companies from developed economies
- significant Foreign Direct Investment (FDI) particularly from North American and UK firms and private equity investors in the capability and capacity of ITO and BPO industry in India
- the continuing rise of Indian ITO and BPO firms such as TCS, INFOSYS, WIPRO, WNS Global Services and Genpact as leading global BPO service providers
- significant investment in India in staff recruitment and facilities by leading global business service providers such as Accenture, IBM and Cap Gemini, thus adding to the capability of the OITO/OBPO industry
- development of knowledge services clusters in a number of Tier One locations in India, such as Bangalore, Gurgaon, Hyderabad, Chennai and Pune.

## **Appendix 9                      Business and contextual notes on REPCOL and INFOSYS facilities in Bangalore**

### **Purpose**

The purpose of these notes is to summarise contextual observations about the REPCOL and INFOSYS facilities located in Bangalore, as part of longitudinal case study research on OBPO. Descriptions of the business operations and summaries of the case studies of both REPCOL and INFOSYS are found in Chapter Five. The observations in this Appendix, which are too detailed to include in Chapter Five, were documented to provide a broader perspective on the facilities from which INFOSYS and REPCOL are delivering OBPO and the organisational cultures observed in the Bangalore offices of both companies.

The observations that are summarised in this document were recorded during visits to Bangalore in May and August 2006, and July 2007, with a visit to the INFOSYS Global Education Centre in July 2007.

### **Research Methodology**

Observations were recorded into a research diary on an approximate daily basis, and were then subsequently drafted at the conclusion of the visits to Bangalore into a consolidated summary. These are the author's personal impressions and observations, and have not been checked with other individuals who were present at the time and who may have formed different impressions or corrected any inaccuracies.

### **REPCOL Bangalore facilities**

While in Bangalore I am accommodated at REPCOL's guest house in the suburbs close to the REPCOL office. This is a modern and well-appointed house that is used to accommodate visiting REPCOL managers, investors and other key stakeholders. It is much closer to the REPCOL office than the major hotels, and it provides a good environment for living and for after business hours work.

I have a pleasant walk each morning to the REPCOL office. It is about 800 metres walk through clean and green streets in mild weather. On arrival at the REPCOL office, I check in with reception and go through various security procedures and sign what is in essence a confidentiality agreement regarding non-disclosure of information that might be revealed in the course of my observations and interviews. I have been endorsed by the Managing Director John Wreford to have full access to all areas of the REPCOL office and to request interviews with management and staff who can assist with the case study that I am researching.

We have an agreed protocol for requesting interviews and for conducting these interviews. John Wreford, who is also staying at the REPCOL guest house and has participated in several

one-to-one interviews and follow up discussions, has suggested various managers and staff for me to interview, and has sought and obtained the consent of these interview participants. John Wreford has also prepared a meeting schedule for me to attend in REPCOL's offices, and when I am not attending meetings or conducting interviews I have a workstation (cubicle) from which I can work.

When I have outside appointments (e.g. at INFOSYS, NASSCOM and ANZ OTSS in Cherry Hills, Bangalore), I am provided with a REPCOL vehicle and a driver who takes me to the appointment and picks me up afterwards. The driver does not speak English well, so is briefed by REPCOL Reception on the location and the times for pick-ups.

### **Description of the office and work environment**

The work environment is a pleasant, well-appointed modern office with excellent lighting, air-conditioning and office equipment. Front-line staff who are making calls and following up debt collection activities are located at cubicles in a secure area of the office.

The Managing Director John Wreford gives me a guided tour of the secure work area and introduces me to some of the staff. On the basis of strict confidentiality, John Wreford arranges for me to listen in to some active calls and I am "double-jacked" (i.e. plugged in via a separate computer and set of headphones) while a REPCOL staff member conducts the call. Listening in, I note that the English language skills of the staff are exceptionally good. While the calls are scripted via information presented on the computer screen, these calls require the REPCOL staff member to establish empathy and rapport with the recipient of the call, and to exercise a high degree of business judgement in conducting the call.

I am given a detailed demonstration and briefing on the Information Technology and Communications systems and software used by REPCOL. These are quite sophisticated and appear to work flawlessly. I discuss the scale of investment required to establish these systems, and am surprised that it appears to be relatively modest, and am advised that it reflects the availability in Bangalore of a reasonably high level of experience and competence in ICT implementation. Noting the very long hours worked by some of REPCOL's software and systems experts visiting from Australia, it occurs to me that there may be an ongoing high cost of coordination (travel and staff time) to maintain the ICT infrastructure.

Middle and senior managers are located in an open plan work area close to the building entrance. Senior managers have enclosed offices of modest size and furnishings. I am assigned a spacious, open plan cubicle from which I can work during the periods (usually up to a week) that I am in the REPCOL Bangalore office. REPCOL management has assigned several administration and middle management staff members to act as my contact points, and I am encouraged to liaise with them to ensure that I have all that I need to conduct research

and prepare the REPCOL case study. I find these contacts to be very helpful and they greatly assist with research productivity, including conveying suggestions from the MD John Wreford such as “Mr John is chairing a meeting at 11.00am to discuss the budget for next financial year, and he thought you might like to listen in” or “Mr John is having lunch with representatives of <Financeco> a potential new customer, and thought that you might like to join him”.

I am also supplied each day with English language business newspapers and media clippings that are relevant to the OITO-OBPO industry in India. This assistance is extremely valuable, and after thanking John Wreford on several occasions and asking that my thanks be passed on to the staff member responsible, I am introduced to Radhika who is a REPCOL graduate hire and management trainee who has been assigned that task.

The workforce at REPCOL appears to be approximately 50% female, and I find that the traditional Indian stereotype of females taking a secondary role is definitely not to be found at REPCOL. The female staff members are enthusiastic contributors in business discussions and at least as assertive as male staff members. The workforce appears to be optimistic about their future and largely free of cynicism.

Frontline staff work shifts, and are provided with transport and meals by REPCOL, so a couple of times each day there is a surge of staff leaving and arriving when there is a shift change. Managers (and especially Australian ex-patriate managers) work very long hours. Because I am staying at the REPCOL guest house I can see that some ex-patriate managers (who are also staying at the guest house) are working very long hours (e.g. 5.00am to 10.00pm). Clearly, this is not sustainable and risks “burn out”.

The REPCOL staff cafeteria is located on the top floor of the building, and I have lunch there each day as do virtually all of the REPCOL staff. I am an aficionado of Indian food, and I find the lunches (mainly vegetarian curries) in the REPCOL cafeteria to be outstanding. The cafeteria is an excellent venue to get to know front-line staff and managers in an informal setting. I note from staff conversations that the transport and meals provided by REPCOL are really important to the staff, are a critically important part of their salary and benefits package and a major topic of conversation.

### **Impressions of the work culture at REPCOL’s Bangalore office**

I have lunch each day in the REPCOL staff cafeteria. The food is superb! I would characterise it as southern Indian cuisine, predominantly vegetarian. It is arranged that I generally have lunch with a different group of REPCOL staff or managers in the cafeteria at a set time each day. The staff have been pre-briefed that I am a PhD researcher from Curtin University, and that I am conducting case study research on REPCOL that is being supported and encouraged

by the REPCOL MD John Wreford, who occasionally joins the table at which I am having lunch.

The staff speak (very good) English while I am having lunch with them, although I notice that when I am not present they generally speak in their local language which I am advised is Kannada, also described as a Dravidian language. It is one of the scheduled languages of India and the official and administrative language of the state of Karnataka in which Bangalore is located.

I learn that many of the REPCOL front-line staff have degrees, and sometimes post-graduate qualifications such as an MBA. Many have had previous multinational company experience, which is highly valued. REPCOL is seen by staff as an important career opportunity because;

- a. It is an international company
- b. They are required to use their English language skills in dealing with end customers
- c. The nature of the work means that they exercise business judgement and are also given a relatively high degree of discretion in the way they manage calls
- d. They consider that the metrics (KPIs) that they have to meet are fair, and that they have an opportunity to earn bonuses for exceeding their targets

The staff are easy to talk to and are highly motivated and very enthusiastic about working at REPCOL and about the OBPO industry. Most have worked at several other OBPO companies and can talk easily about REPCOL in comparison to other companies at which they worked.

I attend several “town hall” style meetings conducted by MD John Wreford at which he briefs staff on REPCOL company performance, future plans and strategy, and the importance of the Bangalore operation and how it fits into the bigger REPCOL picture. John Wreford also takes questions from staff, and for the most part is willing to keep answering questions until all enquiries have been addressed.

In my conversations afterwards with local staff, I observe that John Wreford’s accessibility and openness have a profound positive impact on morale and motivation. Comments from staff such as those below typified the impact.

*“I cannot believe that I am in the same room as the MD”, “Not only did Mr John tell us all about the company (REPCOL), he actually answered MY question”, “He lives in Australia, how does he know so much about Bangalore and India”, and “At my last OBPO company, I never saw the MD let alone having the opportunity to meet him face-to-face and ask questions”*

In terms of work culture, I observed that staff in REPCOL Bangalore asked very similar questions to those that would be asked by front-line staff in Australia, and were equally



assertive and demanding, although possibly more obviously respectful of hierarchy. Questions asked of the MD in Bangalore were more oriented to staff benefits and conditions than I would have expected in Australia, where it is more likely that questions would focus on company performance and operations, and opportunities to improve operations (subjective judgement).

In my conversations with REPCOL front-line staff in Bangalore, I noted that much of their focus and aspirations were on improving the basic material standard of living of themselves and their families. For example, acquisition of motorised transport (referred to by staff as “two-wheeler or four wheeler” meaning motor bike or small car) was a very high priority. Some staff have acquired such transport, and I learnt from them that this was no small or frivolous consideration because it gave them independence and also a much greater ability to contribute to their family and assist extended family.

### **Bangalore traffic**

Growth of the OITO-OBPO industry in Bangalore has greatly outpaced infrastructure development, and this was reflected in the time that I spent in Bangalore in some very slow journeys within the Electronic City neighbourhoods where REPCOL, INFOSYS and other OBPO companies were located. Spending 90 minutes in traffic to make a journey of 5 kilometres to 7 kilometres by road was a very common experience. Meetings were usually arranged at times and locations that might partially ameliorate traffic delays (e.g. at hotels located in quieter areas of the city).

### **Impressions of INFOSYS office campus in Hosur Road, Bangalore**

22 August 2006

After the traffic chaos on Hosur Road, Bangalore, my arrival at the INFOSYS campus makes a stunning impression. The 75-acre office complex reminds me of a serene university campus, somewhat similar to the parkland setting of the University of Western Australia in Perth. The INFOSYS campus is serene, orderly, tidy and well-manicured. The buildings are architecturally-designed and are distinctive and innovative. There is a subdued “buzz” about the campus, as though it is a hub of high technology activity and productivity (which of course it is).

Upon arrival, we are met by Mr Satyendra Kumar who is Head of Quality and Productivity at INFOSYS. He describes his role as primarily process leadership and improvement. Satyendra is an enthusiastic and passionate advocate for INFOSYS. He is extremely generous with his time and goes out of his way to provide assistance. He answers all of our interview questions, recommends other INFOSYS managers for interviews, makes introductions and takes us on a

guided tour of the INFOSYS campus. He also makes arrangements for a subsequent visit to the INFOSYS Global Education Centre campus in Mysore.

Satyendra also briefs us on the “ground rules” for our tour of the facility and our discussions with other managers to whom he has or will introduce us in the course of the day and subsequently. Basically, any information relating to activities that are being performed by INFOSYS for clients is strictly confidential. We are going into some business areas on the Hosur Road campus to observe staff performing OBPO for clients, but we cannot record or publish any details of what we have seen. We won’t be holding any meetings or interviews in these very secure areas. We also visit staff food court areas and leisure and entertainment facilities. These are of a very high standard. INFOSYS aims to provide staff with a self-contained work environment where they can have all meals if they wish and also participate in sports, fitness and leisure activities.

As well as telling us about the “nuts and bolts” of how INFOSYS delivers OBPO services to its global client base, Satyendra also provides significant insights into the global delivery model and how it is changing. He is particularly interested to talk about INFOSYS presence in Australia and how it is evolving, and the new business that is being sought in Australia.

### **Discussion of quality assurance within INFOSYS**

We talk in detail about the Process Execution Platform that INFOSYS uses as a quality assurance tool in OBPO, and about the emphasis that is placed on certification at CMMI Level 5. Satyendra explains that CMMI Level 5 is a quality signalling tool that greatly assists with their global business development (i.e. sales) activities, and that it also is a tool that assists INFOSYS with accurate cost estimation for bidding on new work and negotiating contracts.

It is noted that many new clients initially cannot price well in the early stages of OBPO, and that typical BPO contracts are frequently for an initial 3-year term and may have an incentive clause for INFOSYS to deliver productivity improvements. Using their standard quality assurance and process improvement tools, INFOSYS can almost always deliver a 5% productivity improvement even when internal business processes in the client company are quite efficient.

Where client company business processes are not optimised, INFOSYS has the skills, organisational knowledge and information technology tools to deliver transformational outsourcing. Their track record in this regard explains why 90% of their OBPO business is repeat business. Using some specific client examples which I am asked to keep confidential, Satyendra advises that INFOSYS has a definite strategy to move up the value chain in OBPO by performing higher value tasks (knowledge-intensive services). The senior leadership in

INFOSYS has determined that a business model based purely on labour cost arbitrage is not sustainable; hence, they will progressively move out of that type of low-end work where OBPO contracts are often priced on a “per head” or “per seat” basis. We discuss the global business development strategy being adopted by INFOSYS for moving into knowledge-intensive OBPO. Satyendra explains that INFOSYS is willing to start with small contracts in this area of knowledge-intensive services provided that they have the potential to grow larger.

### **Internal culture within INFOSYS**

We discuss what this move up the value chain will mean for the internal culture within INFOSYS. This leads to a lengthy discussion about the recruitment and induction of new staff at INFOSYS, and as part of the visit I am given the opportunity to sit in a presentation being given by INFOSYS senior HR leadership to a group of recent hires who have just finished a 14-week induction course at the INFOSYS Global Education Centre in Mysore. There are about 200 young staff (age range appeared to be early 20s to early 30s) attending the presentation which focused on INFOSYS core values and expectations. I was told that new hires generally come in with a degree in Engineering, IT or Computer Science, with some specialist degree qualifications (e.g. MBA, Accountancy) recruited in support of BPO.

Satyendra discusses typical career progression in INFOSYS, rates of staff attrition and actions that they are taking to retain staff and enhance staff engagement with INFOSYS core values. He is very proud of a program that is being run to build future leaders in INFOSYS as it came out of the work of the Quality Assurance department.

### **Brief conversation with Nandan Nilekani**

July 2007

I had the opportunity for a brief discussion with Nandan Nilekani, at the time Chief Executive Officer of INFOSYS. I had attended a conference on Globally Distributed Work at the Indian Institute of Management, Bangalore at which Nilekani was the keynote speaker (and I was also presenting a paper). I spoke with him briefly at the end of his keynote address, and mentioned that I had appointments at INFOSYS in a few days’ time to conduct interviews for case study research, and asked if I could speak to him briefly about the establishment of INFOSYS in Australia. This was duly arranged.

We discussed how INFOSYS Australia had been built through acquisition of two local Australian companies. He felt that this had worked very well as it meant that in Australia, the client-facing staff representing INFOSYS were primarily local, while the core strengths of the

INFOSYS global delivery model were being leveraged to deliver value to Australian clients, the most important of which was Telstra.

We discussed how INFOSYS had built a global business that had been started by six entrepreneurs, and how they had managed risk very carefully. There was an anecdote about a time in 1994 when INFOSYS had been operating for just over a decade, and GE represented 40% of INFOSYS's business, and GE was said to be "twisting INFOSYS' arm" in contract negotiations and seeking to reduce rates<sup>47</sup>.

INFOSYS CEO N.R. Narayana Murthy took a decision to walk from the negotiations, and thereafter INFOSYS worked on the basis that ideally no client should be more than 5% of total revenue. It was noted that at one point, Telstra had represented 50% - 60% of INFOSYS revenues in Australia, and was now down to 35% - 40%, and that the 5% target was an aspirational goal.

I found Nandan Nilekani to be an outstanding presenter and speaker in giving the keynote address at the conference, and an impressive and charismatic leader.

### **Visit to INFOSYS Global Education Centre Mysore**

July 2007

I made a day trip from Bangalore to Mysore as a guest of INFOSYS to receive a briefing and a guided tour of the INFOSYS Global Education Centre (GEC). I found INFOSYS Mysore to be quite visually stunning. Set on 340 acres it is significantly larger than the main headquarters at Hosur Road Bangalore. When I visited, I was advised that Mysore GEC has a capacity for 4,500 students, and all new hires go through a 14-week induction program. I was also advised that the Mysore GEC facility was being expanded to a capacity to train 14,000 students simultaneously, effectively through the creation of a second GEC on the same site. I understand that the expanded GEC opened in 2009. The landscape and buildings are somewhat similar to INFOSYS in Bangalore, but on a larger and more spectacular scale. The Mysore GEC also has accommodation facilities for trainees and food courts as attendance at Mysore is residential for a 14-week period.

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<sup>47</sup>This information was provided on a confidential basis, and subsequently appeared in several media articles. See for example The Economic Times, "Between the lines: Why Infosys bade General Electric Goodbye", 1 April 2012. <https://economictimes.indiatimes.com/between-the-lines-why-infosys-bade-general-electric-goodbye/articleshow/12483024.cms>

In keeping with the philosophy of INFOSYS for all-round development of staff, the fitness, sporting and recreational facilities are of outstanding quality, and the park-like campus presents a beautiful landscape. Some of the buildings are architecturally quite spectacular, and INFOSYS aims to deliver participants a memorable development experience that they will remember and treasure all their lives. There seems to be ample evidence that they have succeeded in achieving this goal, which is linked to the focus that INFOSYS has placed on containing attrition rates, which were running at around 15% at the time of my visit and interviews. Staff in the GEC are of the view that attrition rates at INFOSYS are highest for staff in their first two years, so a goal of the GEC is to set new entrants up with a network of peers and the tools to quickly succeed and hence progress through the initial salary levels.

Variously described as the world's largest corporate university, or world's largest corporate training centre, my brief exposure to the GEC suggested that the curriculum focuses on providing all attendees with the basics of IT-enhanced services, including IT infrastructure, software, architecture, business processes and corporate structures and objectives. Students are assisted to acquire a solid background in all of these areas and then streamed into various specialisations. There are regular examinations (on average, every 10 days), and a student's marks in exams and assignments influences the initial salary that they receive.

The Mysore Global Education Centre also includes the INFOSYS Leadership Institute which trains future senior leaders at INFOSYS. Objectives of the Leadership Institute include enhancing the performance of leaders while developing them for future positions, and encouraging senior leaders to coach and mentor emerging leaders. With a view to containing executive salary levels, INFOSYS has a strong preference to develop senior leaders from within, and hence to avoid bidding salaries up through the "war for external talent".

## **Appendix 10                      What can we learn about OBPO from Boeing's 787 Dreamliner experience?**

### **Executive Summary**

The purpose of this Appendix Ten is to analyse the lessons that can be drawn from Boeing's handling of outsourcing during the initial years in which it was designing and manufacturing the Boeing 787 Dreamliner passenger air liner, which entered commercial service in 2011 with All Nippon Airways.

When Boeing commenced detailed design work on the 787 Dreamliner in 2004, it was already experienced and successful in OBPO. With a view to lowering development costs and accelerating development of the new airplane, Boeing changed its outsourcing paradigm (Denning, 2013; Kotha & Srikanth, 2013; Shenhar, Holzmann, Melamed & Zhao, 2016).

In adopting a new outsourcing paradigm for the 787 Dreamliner, Boeing wanted to transform from a "wrench-turning manufacturer into a master planner, marketer and snap-together assembler of high-tech airplanes" (Kotha & Srikanth, 2013, p. 14). As well as this transformational approach to outsourcing, Boeing was also using offshore outsourcing to help sell their new plane into the respective markets of its outsourcing partners (e.g. Japan, Europe, Australia, etc.).

Unfortunately, these outsourcing arrangements encountered major problems. Suppliers fell behind schedule and major components arrived at Boeing's Everett assembly facility with thousands of missing parts. Delays cost Boeing hundreds of millions of dollars in penalties and concessions to airline customers, and cancelled orders (Denning, 2013).

Once the problems being experienced with the initial outsourcing paradigm became evident, Boeing took a number of steps to address problems and get the program back on track. These steps included co-locating Boeing engineers at suppliers' premises, adopting new centralised tools and processes to provide greater visibility of the supply chain and earlier warning of problems, and bringing some major functions, such as design and manufacture of major fuselage sections, in-house (Shenhar et al., 2016).

Boeing's actions in restructuring its outsourcing arrangements to fix earlier problems were ultimately successful, although at considerable cost to Boeing (Kotha & Srikanth, 2013; Shenhar et al., 2016).

Boeing's case with the 787 Dreamliner is relevant to this research for two major reasons. Firstly, it is highly unusual to have an outsourcing case that involved major problems where there is a considerable amount of high quality information (including publications in respected academic journals) available in the public domain. Secondly, the remedial action taken by Boeing provides further reinforcement for the value proposition offered by the captive model,

especially in circumstances where OBPO involves knowledge-intensive activities that are subject to significant uncertainty. The case illustrates that Boeing was motivated to adopt a captive model in order to obtain greater control over the activities being outsourced and to clarify decision rights.

### **Boeing 787 Dreamliner Overview**

Boeing Corporation, which was founded in 1916, has become one of the world's largest manufacturers of commercial aircraft, and now is ranked 27th on the Fortune 500 list. On September 26, 2011, Boeing publicly announced the delivery of its first 787 Dreamliner transporter to its first customer, All Nippon Airways (ANA). That event took place almost 40 months later than originally planned, after a long series of unexpected delays. The actual development cost of the project was estimated at about US\$40 billion and was reported to be more than twice the original estimate (Denning, 2013, Kotha & Srikanth, 2013).

### **Boeing's initial vision and plan for the 787 Dreamliner**

The Dreamliner project was initiated in the early 2000s to take advantage of new technologies, including composite materials and electronic controls, with an effort to reduce fuel costs and noise levels and as a strategic preemptive move to compete with Airbus' 380 program (Shenhar et al., 2016). The Dreamliner project was launched in April 2004 with a planned delivery date during the first quarter of 2008. In retrospect, it seems that this schedule was highly unrealistic. By 2008, however, Boeing had already collected a backlog of more than 850 orders, at an estimated value of US\$140 billion, which made the Dreamliner the most successful launch of any aircraft in history.

### **Boeing's 787 outsourcing strategy**

While outsourcing is a well-established and proven practice in the major aircraft manufacturing industry, Boeing significantly increased the extent of outsourcing for the 787 Dreamliner, as compared to earlier airliners such as the iconic Boeing 747.

Boeing also adopted a new approach to outsourcing (and in fact a complete change in outsourcing paradigm) for the development of Dreamliner and decided to outsource an unprecedented portion of the design, engineering, manufacturing, and production to a global network of 700 local and foreign suppliers (Kotha & Srikanth, 2013). Boeing contracted with a top tier of about 50 suppliers, handing them complete control of the design of their piece of the aircraft. These major partners (i.e. Tier One suppliers) had to make the upfront investment, share the risk, own the design and manage its own subcontractors (Tang, Zimmerman & Nelson, 2009; Gates, 2013). With more than 30% foreign development content, this decision turned Boeing's traditional supply chain into a *development chain* (Tang et al., 2009; Shenhar et al., 2016). Tier-1 suppliers became responsible for the detailed design and manufacturing

of 11 major subassemblies, while Boeing would only do system integration and final assembly. Figure 1 describes the project's major subassemblies and their tier-1 suppliers (Tang et al., 2009; Shenhar et al., 2016).

Furthermore, Boeing came up with a new risk and revenue sharing contract with its suppliers, called the “build-to-performance” model. According to the model, Boeing’s contract suppliers were required to meet the non-recurring R&D cost up-front, own the intellectual property of their design, and get paid a share of the revenues from future aircraft sales.

With the aim of reducing its capital outlay and shortening cycle time, Boeing significantly increased the extent of outsourcing for the 787 Dreamliner, as compared to earlier airliners such as the iconic Boeing 747. For the 737 and 747, Boeing had outsourced about 30% - 40% of the content. For the 787 Boeing planned to outsource about 70% of the content. Boeing also significantly changed the nature of its relationships with its top tier of about 50 suppliers, who were required to make upfront investments, share the risk and own the design (Tang, Zimmerman & Nelson, 2009; Kotha & Srikanth, 2013).

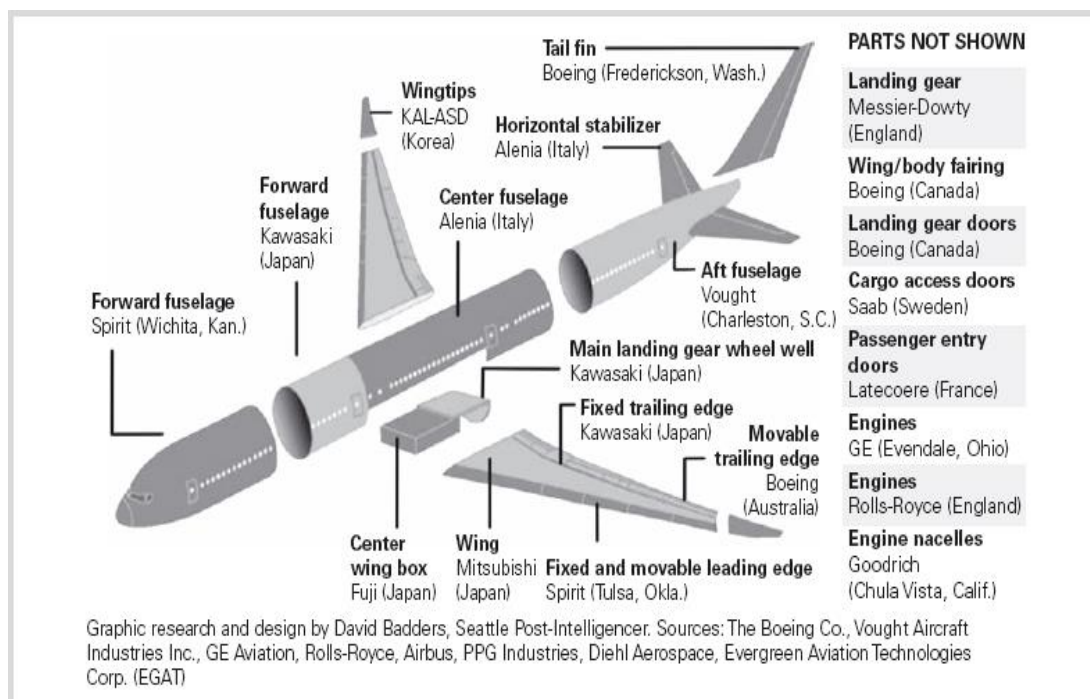
Table 1 summarises the main features of the outsourcing model. Under the new outsourcing paradigm that Boeing adopted originally, the Tier One suppliers’ roles are dramatically changed from mere subcontractors to strategic partners who were given a long-term stake in the project. However, experience was to demonstrate that the new outsourcing paradigm led to a number of severe development and integration problems, which caused extensive delays and cost overruns for Boeing (Tang et al., 2009; Denning, 2013).

**Table 1 Comparison of Boeing’s outsourcing strategy for its 737 and 787 programs (source: Tang et al., 2009)**

Component of program	737 program	787 program
Outsourcing strategy	Outsource 35% - 40%	Outsource 70%
Relationship with suppliers	Traditional supplier relationship (contract-based)	Strategic partnerships with Tier One suppliers
Responsibilities assigned to suppliers	Developed and produced parts for Boeing	Developed and produced major sections for Boeing
Number of suppliers to Boeing	Thousands	Approximately 50 Tier One suppliers
Nature of supplier contracts	Fixed-price contract with delay penalty	Risk and gain sharing contracts
Assembly operations at Boeing Everett facility	30 days for Boeing to perform final assembly of parts	3-day assembly on complete sections

**Figure 1: 787 project's tier-1 suppliers (source: Shenhar et al., 2016)**





### Problems encountered with Dreamliner 787 new outsourcing paradigm

Unfortunately, these new outsourcing arrangements encountered major problems. Suppliers fell behind schedule and major components arrived at Boeing's Everett assembly facility with thousands of missing parts. Delays cost Boeing hundreds of millions of dollars in penalties and concessions to airline customers, and cancelled orders (Denning, 2013).

Delivery of the first 787 Dreamliner to Boeing's first customer All Nippon Airways took place almost 40 months later than originally planned, after a long series of unexpected delays. The actual development cost of the project was estimated at about US\$40 billion and was reported to be more than twice the original estimate. Boeing's original plan for the 787 was to have all subassemblies completed and delivered by June 2007, have the maiden flight in August 2007, and make the first delivery by May 2008. It was the first of several delays prior to the first test flight, which took place nearly a year and a half later than planned (Kotha & Srikanth, 2013). With more than 60 canceled orders, Boeing had to pay its customers nearly US\$1 billion in penalties for late delivery because the first aircraft were not sellable (Shenhar et al., 2016).

Design issues were not the only causes of delays. Boeing listed additional reasons such as weight control, fastener shortages, incorrect installation, extensive delays in suppliers' work, and software development difficulties (Shenhar et al., 2016).

### **Remedial actions taken by Boeing**

Boeing management took a number of steps to address the delays and get the 787 program back on track (Kotha & Srikanth, 2013). These steps included:

- Reassigning Boeing engineers to partners' sites to share their expertise and promote greater collaboration through co-location;
- Bringing some of the most difficult areas (such as major fuselage assemblies back in-house by acquiring the facilities and intellectual property of Tier One suppliers (e.g. Vought and GE Alenia);
- Building additional tools and systems to improve Boeing's visibility of progress at its Tier One suppliers and to provide early warning of problems.

As reported by Tang, Zimmerman and Nelson (2009), after repeated failed efforts to assist Vought, supplier of the 787's composite rear fuselage, to get back on track in terms of budget and schedule, Boeing decided to acquire Vought's facilities and intellectual property in July 2009. In effect, this event represented Boeing transitioning its outsourcing engagement model for this critical component (i.e. rear fuselage) from third-party contracting to a captive model as Vought's 787 fuselage design and production facilities became wholly-owned by Boeing.

In announcing the acquisition of Vought, Boeing advised stock markets that the takeover would accelerate productivity and efficiency.

*“Integrating this facility and its talented employees into Boeing will strengthen the 787 program by enabling us to accelerate productivity and efficiency improvements as we move toward production ramp-up,” said Scott Carson, president and CEO of Boeing Commercial Airplanes. “In addition, it will bolster our capability to develop and produce large composite structures that will contribute to the advancement of this critical technology.”*

Analysis of Vought's situation indicated that a pivotal issue was the transfer of decision rights from Boeing to its third-party contractor (Kotha & Srikanth, 2013). While Vought had the role of integrating major subsystems being supplied from Boeing's other Tier One partners, Vought lacked the disciplinary authority when those suppliers delivered incomplete or non-functional assemblies at Vought's locations.

### **Analysis of Boeing's outsourcing challenges with 787 Dreamliner**

The 787 Dreamliner represents a breakthrough product because it is the first large passenger plane built using composite materials, which enabled Boeing to add significant value for its airline customers and also for fare-paying passengers. The 787 can fly a given distance with 20% less fuel than comparable planes and also delivers lower maintenance costs to the airline

operators. The 787 also significantly improves the travel experience for paying passengers because the composite material enables increased humidity and pressure to be maintained in the passenger cabin, and the extended range resulting from lightweight composite materials enables the 787 to fly non-stop on long haul routes (such as Perth to London) without any stopovers.

In order to develop high value products or services, companies must acquire external knowledge and effectively integrate it with internal knowledge (Contractor et al., 2010; Kotha & Srikanth, 2013). Because of the radical new technology adopted for the 787 Dreamliner, it is not at all surprising that Boeing did not have all of the skills and knowledge in-house that would be required. Hence, the adoption of a new outsourcing paradigm that drew upon the skills and knowledge of external partners was a logical approach. In launching a radical new airliner product onto global markets, it is also logical that Boeing would seek Tier One suppliers in major markets outside the USA (e.g. Japan, Italy, Australia) in order to leverage offshore outsourcing to generate more sales of the 787 Dreamliner in these markets. Developing markets for the client company's products in offshore locations has been recognised as a strategic goal of offshore outsourcing (Contractor et al., 2010).

From an organisational standpoint, the development effort of the Dreamliner was more complex than in previous projects due to the innovation involved in outsourcing much of the design and development, as well as a new incentives model. The project lacked sufficient organisational support systems for managing the new and highly complex network of suppliers. Such systems were eventually put in place, but at a much higher cost than if implemented at inception. The interface between technological innovation and organisational complexity was also significant. The time required for integration and for redesign iterations *across* multiple firms was underestimated. Boeing originally allocated only two months for system integration before scheduling the first flight. In retrospect, that time was much lower than needed (Shenhar et al., 2016).

Similarly, from a strategic standpoint, Tang et al. (2009) and Shenhar et al. (2016) both observe that Boeing was not fully ready to manage the innovative business model of Build-to-Performance. Such innovation required management of the burden of fully controlling strategic outsourcing, supplier selection, contracting, monitoring, testing, and quality control, as well as addressing the cultural and distance differences; however, only a few of these activities were completed before the 787 Dreamliner project was launched. Analysis conducted by both Tang et al. (2009) and Shenhar et al. (2016) indicates that the company should have selected suppliers more carefully based on their R&D capabilities, level of commitment, and financial strength. Furthermore, drawing from this analysis, these observers observe that the company would have greatly benefited by initiating an extensive training

program for its subcontractors, making sure they were ready to take on the challenge before they could commit to undertaking the design and development work.

### **Application of OBPO theory to problems encountered with Boeing's outsourcing of the 787 Dreamliner project**

The nature of the outsourcing problems encountered by Boeing are well represented in the OBPO literature, which can offer significant insights for the avoidance and management of such difficulties. Lacity and Willcocks (2017) provide a framework for resolution of outsourcing difficulties that are strategic in nature which appears highly relevant to the situation that Boeing encountered with the 787 Dreamliner. It is also worthy of note that Lacity and Willcocks (2017) report that 20 years of academic research have found that business services outsourcing failure rates approach 50%, with the inability to resolve conflicts being a major cause of poor outcomes. Hence, Boeing's problems could have been anticipated by management.

The nature of the problems encountered by Boeing and a number of its Tier One suppliers can be characterised in terms of the framework presented by Lacity and Willcocks (2017) as a combination of **commercial** and **service** conflicts. Commercial conflicts threaten economic outcomes for client and supplier while service conflicts involve disputes over the quality and timeliness of the service being delivered (Lacity & Willcocks, 2017). Boeing was encountering both types of problems, which made them harder to resolve.

Given those circumstances, Lacity and Willcocks (2017) propose that successful conflict resolution requires an approach based on collaborating towards joint problem-solving and then integrating agreed solutions to recognized problems, thus working together to create mutual benefits. This is the approach that Boeing adopted, and ultimately it was successful. After the early difficulties that are reported above, the 787 Dreamliner is now recognised as a considerable commercial and operational success, and Boeing's share price reached record highs earlier in 2017.

### ***Limitations of disaggregation of the value chain***

In launching the 787 Dreamliner project with a new outsourcing paradigm, Boeing senior management were making strategic choices about the optimum disaggregation of the value chain for this new aircraft, and how major components should be allocated both geographically and also within or outside the boundaries of the Boeing company (Contractor et al., 2010). In such circumstances, the published research on OBPO has found that there are additional management costs and overheads associated with the difficulties of communicating tacit knowledge across national and cultural boundaries (Hutzschenreuter et al., 2011b; Lacity & Willcocks, 2017) which can delay achievement of objectives and business benefits realisation.

Boeing's subsequent recovery actions were clearly designed to address these limitations. By acquiring Vought (effectively converting it into a captive operation), Boeing management acknowledged that disaggregation of the value chain had initially gone too far and needed to be reversed.

### *Management of transition*

Boeing's initial difficulties provide evidence that transition of 787 activities to suppliers failed due to difficulties of coordination and communication that have been widely recognised in the OBPO literature (see for example Contractor et al., 2010; Jensen et al., 2013; Mihalache & Mihalache, 2016). Boeing's challenge was to establish the mechanisms for coordination, communication and control in high value and knowledge-intensive activities across geographical, cultural, linguistic and company boundaries. Lessons from OBPO research are that addressing this challenge requires a number of mechanisms including selection of engagement model (or internal or external governance mode), formal knowledge management plan and increased codification and modularity of tasks being outsourced (Srikanth & Puranam, 2011; Elia et al., 2015; Mihalache & Mihalache, 2016).

When offshore outsourcing involves knowledge-intensive activities such as those involved in the Dreamliner program, a transition plan is required that encompasses both formal and informal transition and governance activities. The recovery and remedial actions that Boeing put in place did in fact address all of these aspects of transition, but could have been adopted from the start of the 787 program and hence may have reduced or eliminated the outsourcing problems that were encountered.

### *Management of tacit knowledge*

In establishing outsourcing arrangements for the 787 program, Boeing had a specific objective of obtaining from their external partners knowledge that Boeing did not have (e.g. manufacturing techniques involving composite materials). Hence, there was an expectation that external suppliers would contribute significant domain expertise and knowledge of global best practice. With more than 30% of Dreamliner content being sourced from overseas suppliers, it was also essential that Boeing and its suppliers developed a knowledge management strategy that enabled tacit knowledge to be captured, transferred and leveraged across cultural and geographic boundaries.

The early difficulties suggested that Boeing either did not have a formal knowledge management (KM) strategy for the Dreamliner program, or that its KM plan was inadequate for the challenges encountered. Boeing's subsequent actions in co-locating Boeing engineers at supplier sites, converting two of the most important external suppliers to captive operations and establishing systems and procedures at Everett to give greater visibility and early warning

of problems being encountered in the supply chain, proved to be effective responses to the challenges of managing tacit knowledge.

### *Selection of outsourcing engagement model*

Noting the challenging in managing tacit knowledge and transition of knowledge-intensive OBPO, Mihalache and Mihalache (2016) argue that a captive operation may more quickly develop a common understanding of two-way knowledge accumulation and may also clarify decision rights and reduce barriers as referred to by Levina and Vaast (2008). In converting Vought and GE Alenia from arms-length supplier contract relationships to captive operations, Boeing can be seen to be following this advice from OBPO research.

In implementing its new outsourcing paradigm, one of the key problems that Boeing encountered was the influence of the industry regulator, the Federal Aviation Authority which is required to certify the airworthiness of all new passenger planes before they can take to the skies. In a situation where 70% of the content of the 787 Dreamliner was outsourced, it is still Boeing that the FAA holds responsible to resolve any emerging problems that impacts on airworthiness, and hence, it is Boeing who must meet the associated costs of fixing issues identified by the FAA. The need to obtain greater control over design changes and system fixes required to achieve FAA certification was also a significant consideration in Boeing acquiring GE Alenia and Vought's Dreamliner facilities, thus converting these into captive outsourcing centres.

### *Value proposition of captives*

Boeing's actions in converting Vought and GE Alenia to captive operations reinforces the value proposition for captives that is identified in Chapter Six above. Moving to captive operations for the major fuselage sections leveraged the strengths of the captive engagement model for knowledge-intensive activity because Boeing was able to clarify decision rights with its Tier One suppliers, obtain control over activities that were critical to the overall program schedule (including FAA certification) and promote internal acceptance and integration of components from the Vought and GE Alenia facilities.

### **Summary and conclusions**

Application of OBPO theory provides significant insight into the outsourcing difficulties that Boeing encountered with the 787 Dreamliner. Boeing's strategic objectives in adopting a new outsourcing paradigm for the 787 program were consistent with what we have learnt from OBPO theory, and the outsourcing strategy was well aligned with overall Boeing company strategy. Given the extent to which the value chain was being disaggregated and the relatively

high offshore component (30%), OBPO theory also suggests that there were considerable risks associated with the new outsourcing paradigm. It is clear that Boeing senior management did not focus sufficiently on identification and mitigation of these risks. Once problems had become apparent, the remedial action taken by Boeing was entirely consistent with what we have learnt from OBPO theory.

It is possible indeed likely that Boeing senior management could have avoided or ameliorated many of the problems encountered with outsourcing on the 787 Dreamline project by a more thorough application at the commencement of the program of the conclusions that have been drawn through two decades of research into OBPO.

### **Limitations of this analysis**

This analysis of Boeing's outsourcing strategy with the 787 Dreamliner and the problems encountered has relied on open sources. Hence, a significant limitation is that the analysis may have achieved a more in-depth insight into the project's internal dynamics and the management actions taken by Boeing if it had involved interviews with key executives and/or access to internal Boeing documents. Secondly, the risk management approaches and outsourcing critical success factors suggested as possible solutions for the difficulties encountered during the 787 Dreamliner project have been developed on the basis of hindsight. Therefore, it is impossible to predict whether outcomes would have been different if Boeing had adopted some of the practices that are recommended for successful management of outsourcing, or adopted different outsourcing approaches. Thirdly, while OBPO theory offers insight into some aspects of the problems encountered by Boeing, there were clearly a range of other factors that are directly relevant to projects of the scale and significance of the Boeing 787 Dreamliner.

### Appendix 11 List of persons interviewed in the case studies and their roles

The purpose of this appendix is to provide a summary of the persons interviewed in the various case studies and in particular to indicate their functional job roles. Persons interviewed are referred to by their functional role, rather than by their precise title. Refer also to Table 5.1 in Chapter Five for a summary of all of the case studies.

#### Client case study: Repcol (locations Perth and Bangalore)

Person interviewed and job role	Number of interviews conducted
Managing Director (John Wreford)	Multiple occasions
Chief Financial Officer	1
General Manager, Bangalore Centre	Multiple occasions
General Manager, Strategy	3 occasions
Board Members	3 persons
Manager, Collections, Bangalore Centre	2 occasions
Repol client representatives	2 persons
Repol front line staff, Bangalore Centre	Multiple persons
Focus groups with Repcol staff in Bangalore centre	3 occasions



**Client case study: IORAM (Bangalore)**

<b>Person interviewed and job role</b>	<b>Number of interviews conducted</b>
Founders and joint Managing Directors (a.k.a. Principals)	Multiple occasions
Head of Equities Research, Bangalore Centre	2 occasions
Equity analysts, Bangalore Centre	3 persons

**Client case study: ANZ Bank**

<b>Person interviewed and job role</b>	<b>Number of interviews conducted</b>
Managing Director, ANZ OTSS, Bangalore (Fred Bertram)	Multiple occasions
Head of Quality Assurance and Client Acceptance	3 occasions
General Manager, Human Resources, Bangalore Centre	Multiple occasions
Visiting executive from ANZ IT Operations, Melbourne	1 occasion
Software Programs Manager, OTSS Bangalore	1 occasion
Business Processes Programs Manager, OTSS Bangalore	1 occasion
ANZ front line staff, OTSS Bangalore	2 persons

**Client case study: British Airways**

<b>Person interviewed and job role</b>	<b>Number of interviews conducted</b>
Retired CEO (Sir Rod Eddington)	Multiple occasions
Chief Information Officer	1 occasion
Head of Alliances and Partnerships	1 occasion

**Client case study: Telstra Corporation Ltd**

<b>Person interviewed and job role</b>	<b>Number of interviews conducted</b>
Telstra's Procurement Manager responsible for Infosys relationship	1 occasion
Telstra's Relationship Manager Accenture	1 occasion
Telstra's Head of Philippine Global Contact Centres	1 occasion
General Manager, Global Contact Centres Strategy	1 occasion
General Manager, Retail customer service	1 occasion
General Manager, Operations	2 occasions

**Supplier case study: Accenture**

<b>Person interviewed and job role</b>	<b>Number of interviews conducted</b>
Accenture partner, Melbourne	Multiple occasions
Accenture partner, Rome, Italy, centre of excellence	2 occasions
Accenture engagement lead, Telstra SDF program	1 occasion
Telstra's SDF Program Manager	Multiple occasions

**Supplier case study: WNS**

<b>Person interviewed and job role</b>	<b>Number of interviews conducted</b>
Global Head of Quality and Delivery, Airlines vertical market, Gurgaon	2 occasions
Head of Investor Relations, Gurgaon	1 occasion
British Airways Relationship Manager	1 occasion

**Supplier case study: Infosys**

<b>Person interviewed and job role</b>	<b>Number of interviews conducted</b>
Managing Director, Bangalore campus	1 occasion, informal
Global Head of Quality Assurance, Bangalore campus	2 occasions
Delivery Managers, Bangalore campus	2 persons
Client Relationship Manager, Bangalore campus	1 person
New graduate recruits, Mysore campus	Multiple persons

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