15 | *Managing core outsourcing to address fast market growth*

A case study of an Indian mobile telecom service provider

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Introduction

The strategic management literature defines outsourcing as

a fundamental strategic decision to reject the internalization of an activity. This means that outsourcing can arise in two ways. First, it may involve the substitution of market transactions for internal activities. This occurs when an organization ceases performing an activity in-house and shifts it to an outside supplier. Second, outsourcing may arise through abstention. That is, a firm may decide never to engage in a given activity and thus abstain from it altogether, even though it is well within the firm's managerial, technical, and financial capacity to do so. (Gilley, Rasheed and Shammari, 2006)

Among the various benefits associated with outsourcing, locating activities where they function more efficiently and effectively with the right balance of cost, flexibility, and risk is often cited as the most salient outcome (Kelly and Poole, 2006; Linder, 2004).

While there have been a large number of studies on the outsourcing of functional activity, more specifically on peripheral outsourcing (the outsourcing of non core activities), little is known about core outsourcing, that is the outsourcing of strategically relevant, core activities and the internal capabilities that an organization must develop to parlay core outsourcing into an improved market position. This gap is egregious because unless the link between core outsourcing, governance process, and competitive advantage is clearly established, organizations may not be able to deliver intended outcomes through core outsourcing. This chapter will describe the efforts made by a leading Indian mobile telecom service provider experiencing fast market growth combined with rapid technological change through core

outsourcing. After a brief background of the company, subsequent sections will describe the research methodology, the results, and a discussion of the study's findings.

The subject firm

Bharti Airtel is the largest wireless service provider in the country, with more than 85.7 million subscribers[1] and a market share of 24.7 percent as of January 2009. Given Bharti's market capitalization of 1.51 trillion rupees ($31.43 billion) in January 2009, it had sales of US $767 million in fiscal 2008 and a compound annual growth rate of 57 percent.

The company offers its cellular services under the Airtel brand. It complements its mobile, broadband, and telephone services with national and international long-distance services and provides end-to-end data and enterprise services to corporate customers through its nationwide fiber optic backbone, last mile connectivity in fixed-line and mobile circles, VSATs, ISP, and international bandwidth access through the gateways and landing station.

In early 2004, Bharti Airtel decided to outsource both its IT systems management and its networks. These are parts of the telecom business that all telecom companies globally consider their core business. Bharti signed a 10-year $750 million contract with IBM, outsourcing Bharti's information technology services including billing, management of customer accounts, and operation of the Bharti intranet. Then, over a period of four months, Bharti signed contracts outsourcing its entire network management to Ericsson (fourteen circles or geographic regions), Nokia Networks (four circles or geographic regions), and Siemens (three circles or geographic regions). The total value of the contracts was $400 million. This trio managed base stations (antennae, switches, routers, transmitters, and receivers) within their circles, deployed new stations as required, rolled out new networks and applications, and took on board roughly 800 Bharti staff. They also added new staff dedicated to Bharti as the networks expanded.

As a result of these outsourcing contracts, Bharti handled just a few things: marketing, sales, and distribution. Apart from that, it monitored its vendors, saw that they observed the parameters of the contracts, and made sure that they deployed and built only the best systems and networks for Bharti's operations.

Industry context

The Indian mobile telecommunication industry has been experiencing very fast market growth. The Indian mobile user base increased from 10 million in 2002 to 150 million in 2007, with an average growth rate of 90 percent year over year.[2] Oligopolistic competition was unfolding. There were competitors in the Global System for Mobile Communications (GSM) and Code Division Multiple Access (CDMA). Bharti Airtel, Vodaphone – Hutch were in the GSM space, while Tata Indicom and Reliance were in the CDMA space. The number of subscribers to mobile networks was growing at a rapid rate on a national basis.

By its own admission, Bharti Airtel had lost money every year until 2003 and had posted profit from 2004. The watershed in its growth and profits came from strategic outsourcing. Bharti Airtel decided to outsource its network which is the core of its business. As Chairman Sunil Mittal, put it:[3]

If something goes wrong with my switch, there's no way anyone from Bharti can do anything about it. An Ericsson guy is going to have to come and fix it. I don't manufacture it; I can't maintain or upgrade it. So I'm thinking, "This doesn't really belong to me. Let's just throw it out." Western companies . . . have proven ability to work for large mobile providers and can render services locally through Indian subsidiaries. IBM has thousands of people in India who work only on my job. Indians run it, but they're governed by the IBM structure, under the command and control of IBM's global experts.

Expanding operations in a technology-intensive business requires the acquisition and retention of technically competent talent. The challenge was to attract and retain them, since the best and brightest would always look forward to working for companies who are well known in that particular area of technology.

Methodology

The objectives of the study were as follows: to examine the conditions that lead to the formation of outsourcing arrangements; to probe the outsourcing governance process after the outsourcing agreements were operational; and to examine outsourcing outcomes to identify problems that may come about as a result of dissatisfaction with the results of outsourcing arrangements.

Data for this study was collected as a part of a larger study on managing outsourcing.[4] The author used a retrospective case study method to collect data about the subject company and a series of semi-structured interviews were orchestrated with key executives of Bharti Airtel. The structured part of the interview featured questions drawn from the extant literature on outsourcing. In addition to the prepared set of questions, the interviewer led the discussion to cover related outsourcing issues. The interviews were taped and subsequently transcribed into a document.

The author used Owen's (1984) thematic analysis to interpret the interview notes. In making a case for qualitative analysis, Wood *et al.* (1994) reasoned that "thematic analysis is doubly interpretive because it probes not only symbolic constructions, but also relies on discursive accounts as the primary data that reveal the meanings (participants) generate from their experiences." Each interview lasted about an hour. Interviews were taped and subsequently transcribed. The interviewer added insights from the interviews that were not reflected or were not readily apparent from the transcription. Questions for the structured part of the interview were gathered by examining the outsourcing literature (Bragg, 1998; Greaver, 1999; Lacity and Willcocks, 2001; Linder, 2004).

Findings

The principal motivations for the outsourcing agreements were to introduce service differentiation along with speed in expansion; to save on current operational costs and reduce capital expenditure; and to consolidate services that were earlier provided by multiple vendors leading to challenges of integration.

Bharti Airtel's strategic objective was to capitalise on the growth opportunities that the company believed were available in the Indian telecommunications market and to consolidate its position as the leading integrated telecommunications services provider in key markets in India, with a focus on providing mobile services.

Bharti was aiming to free up top management bandwidth to chart out its strategic plan in terms of growth of network footprint, number of subscribers and their usage patterns, and aimed to depend on external contract service providers to operationalize their growth plan.

Table 15.1 *Outsourcing customer service*

Customer segment	Quality of service	In-house/outsourced
Post-paid care touch	Best in class	In-house
Balance post-paid + prepaid CT	Premium service	Outsourced
Normal prepaid	Basic service	Outsourced

The company expected to triple its subscriber base in three years; assuming that it had to maintain 30 per cent spare capacity as buffer in its network, it had to create capacity for about 32 million lines. Adding each line at current prices costs about $100. Therefore, the company was looking at a capital expenditure of approximately $2,430 million. Having outsourced the network, the company would pay only for the 25 million lines that it actually utilized which would cost it roughly $1,700 million. At the outset of the outsourcing contract, the company transferred around 1,000 engineers from its payroll to that of the contract service providers, thereby saving on the recruitment of additional engineers for the increasing number of base stations that it was planning to set up. Vendor consolidation also makes life simpler for BTV in many ways. Prior to outsourcing IT to IBM, Bharti was dealing with a dozen IT suppliers. It had billing from Kenan Systems, customer care from Oracle, hardware from Sun Microsystems and HP, storage systems from EMC, fraud management systems from Subex, data warehousing from NCR Teradata, interconnect systems from Intec, and mediation systems from Hughes Software and Comptel.

Formation of outsourcing agreement and initial challenges

Bharti entered into outsourcing to focus its resources on competencies that were difficult to imitate such as brand loyalty and reputation for quality and service. The premium customers were serviced in-house while the other post-paid and prepaid customer categories were serviced by the external contract service providers (see Table 15.1).

From the point of view of the external contract provider, the main motivation was accelerated market penetration, local market knowledge of the client, and learning to customize equipment/services for local clients. Another motivation was to access the market through a

strong player. The initial key challenge for Bharti was adapting to the lateral organizational role of the outsourcer.

In the words of a senior executive:

As an outsourcing company our whole responsibility was to focus on the key performance indicators (the KPIs) through the 3 Ps of process, positive response, and periodic planned reviews. Our principal technical officers had to be process oriented. We received input from the marketing team, we passed it on to the external contract service provider and they came up with a working plan. They did not implement it right away. They got it validated. There was a review process in it. The whole team was involved in the validation. We gave feedback to our sales and marketing team. This was planned and periodic.

We adopted the positive feedback process. We said, let us see. We were in this situation some time back. We know that to improve on key performance indicators, it took us some time. If we were to look into this problem, with our staff, we would have done this much in this period. Is it fair on our part, just because we have handed over the service to the external contract service provider, that the work should be done in a particular time and in a particular way? We realized that we needed to have realistic expectations from our external contract service providers. The market was growing rapidly, customer demand was going up. We needed to give them time to analyze problems and give them time to solve them. That was positive feedback.

The other initial challenges were building the client base, while servicing the client through external contract providers; the funding and maintenance of dedicated assets; understand and enable understanding of each other's working culture – coming to terms with transition from hierarchical to lateral orientation, emergence of confrontational rather than collaborative style of relating with external contract service providers, fighting to win on every detail of contract interpretation, domination as a focus and not cooperation with the external contract service provider, aligning decision-making as a process between the outsourcing company and the external contract service provider.

Outsourcing governance

The three key themes which emerged as a consequence of the outsourcing strategy were the role of the interface manager; the need for clear understanding of policy at all levels of client organization and

outsourced service provider organization; and the need for continuous communication in the form of formal and informal reports. Bharti concluded that the way to make outsourcing work on such a huge scale was by creating very tight, extremely detailed service level agreements (SLAs). These SLAs needed to take into account every possible contingency. A Bharti governance team tracked the service level agreements on a daily basis. The team essentially ensured that all SLAs were met. On the network side, Bharti retained a technical team to focus on five areas: design and planning, network deployment, operations and maintenance, value-added services, and quality assurance. Half of the team were looking into the last two areas.

In case of any slippage on an SLA by any of the partners, there were four levels through which a problem could be escalated, right up to Mittal himself.

Outsourcing outcomes

Bharti, the outsourcer, appeared to employ both quantitative and qualitative metrics to measure outsourcing outcomes; measurement processes ranged from surveys to hard metrics on operations parameters; outsourcing dyads (the outsourcer–external contract service provider) needed to have clear expectations of the resources and skills that each party would contribute; the interface manager and his team required encouragement to play a business development role in addition to the monitoring and review role which was essentially a liaison role; measurement could have been both retrospective and aimed at the future.

Core outsourcing made tremendous economic sense for Bharti. Prior to the outsourcing agreements, vendors were pushing to sell more equipment and maintenance to Bharti while Bharti was trying to expand and sustain operations with minimum equipment and cost. This inherent conflict was taken care of by the outsourcing contracts. Bharti paid the external contract service providers for the telecommunication network when the network was used by Bharti's customers which excluded payment for unused capacity. Similarly, the IT outsourcing agreement provided for a number of quality controls specified in the SLAs (service level agreements) such as customer satisfaction and new application implementation according to which Bharti agreed to share its revenue with the external contract service provider in a manner which reflected the increase and decrease in revenue for Bharti in
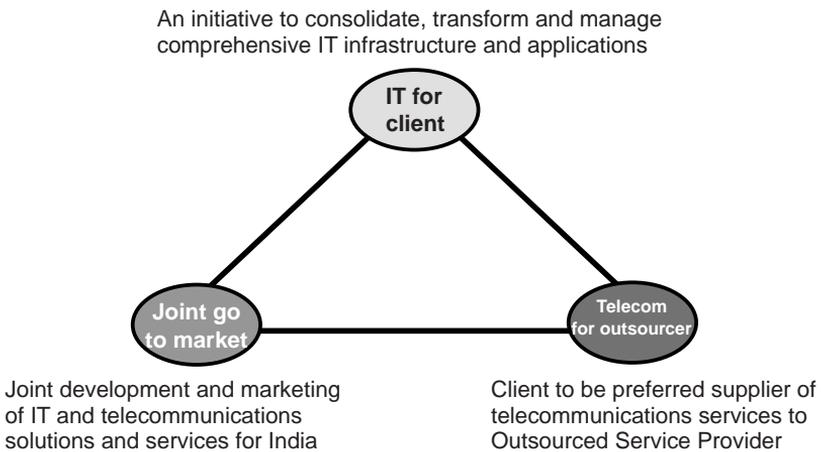
An initiative to consolidate, transform and manage
comprehensive IT infrastructure and applications

Figure 15.1. Three components of outsourcer–external service provider relationship

the form of a corresponding reward or penalty for the external contract service provider. The selection of external contract service providers was based on their ability to scale up, support top-line growth, and go to market strategy (see Figure 15.1).

Notes

1 http://info.shine.com/print/Industries-Article/Indian-mobile-subscribers.
2 Report on Indian Telecom – Credit Suisse, October 14, 2008.
3 http://cnnmoney.printthisclickability.com/WirelessWonder: India's Sunil Mittal.
4 The study was presented at the 2007 ICM-GDW Conference in Bangalore. While the current study uses the same dataset, the focus of the two studies is quite distinct.

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