Offshore BPO at Large Captive Operations in India

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Abstract

Purpose – The motivation for this research is to contribute towards development of a management framework for offshore Business Process Outsourcing (BPO).

Design/methodology/approach - This paper utilises longitudinal case studies to identify success factors in managing offshore Business Process Outsourcing (BPO) via the captive model (i.e. wholly-owned subsidiary).

Findings – Success in offshore BPO is based on a combination of cost savings, technical service quality and strategic issues, is specific to business context and will change over time. Choice of engagement model (e.g. captive operation or arms-length contracting) is an important success factor. Advantages of captive centers arise from higher levels of relationship quality, trust and collaboration effectiveness.

Research limitations/implications – Focused on two global companies in two industry sectors (airlines and telecommunications), and both have adopted one particular BPO model (i.e. captive operation).

Originality/value – The paper contributes to scarce literature on offshore captive BPO operations, the most common but also least researched engagement model. The findings have practical implications for managers designing offshore BPO strategy.

Keywords Globally Distributed Work (GDW), Business Process Outsourcing (BPO), Captive BPO, Offshoring

Paper type Research paper

1. INTRODUCTION

For companies seeking to utilize offshore ITO and BPO, a variety of ownership and relationship structures are possible with Indian service providers. An early and fundamental decision is whether to establish a captive operation (i.e. wholly owned subsidiary) or some form of contracting relationship with an established service provider (Ramachandran and Voleti 2004, Robinson and Kalakota 2004).

Frequently, offshore captive centers are established in locations where there is an abundant supply of skilled and qualified professionals available at lower labour rates than in the client company's country of origin (Levina and Vaas 2008). Offshore captive centers have been established in various countries and regions, although India continues to be the predominant location (Oshri, Kotlarsky and Liew, 2008).

The scale of investment in captive BPO centers indicates that this is a research issue of significance. The captive model appears to be the least researched but also the most common (Oshri, Kotlarsky and Liew, 2008) and is steadily growing, with about $9 billion USD worth of IT and BPO activities shifted to captive centers in India in 2006. BPO has been identified as a research gap (Dibbern et al, 2004) and an emerging phenomenon that, in terms of expenditure, may overtake ITO within 4 years (Hirschheim, Dibbern and Heinzl 2008, Lacity, Willcocks and Rottman, 2008).

For practitioners, offshore BPO has been identified as offering "tremendous opportunities to drive business value" (Lacity, Willcocks and Rottman, 2008). However, scarcity of academic research means that decision-makers have to proceed on faith, or rely on information from outsourcing vendors and consultants (who may not be disinterested parties). This can lead to 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 and Corbitt, 2007, Levina and Su, 2008).

Despite the growth of offshore BPO, an examination of academic literature reveals a number of gaps in current theory (Rouse and Corbitt, 2007, Hirschheim, Dibbern and Heinzl, 2008). Accordingly, the motivation for this research is to contribute towards development of a management framework for offshore BPO. In this paper, the focus is on companies' objectives for conducting offshore BPO, choice of engagement model, and the potential advantages offered by captive centers in the design of offshore BPO strategy.

This paper reports on research conducted via longitudinal case studies into large Australian and UK multinational companies and their captive BPO operations. British Airways, WNS Global Services and ANZ Bank provide examples that illustrate effective management of captive BPO centers and demonstrate that the Indian ITES industry is successfully moving up the value chain.

2. OFFSHORE BUSINESS PROCESS OUTSOURCING: LITERATURE REVIEW

From an exploratory field survey of offshore BPO activities and review of ITO research literature, the authors developed a case study protocol that focused on the following key factors that were considered likely to be influential in design of offshore BPO strategy, evaluation of BPO investment options and the potential advantages of the captive model:

- Organisations' criteria for assessing the success of offshore BPO (i.e. definition of offshore BPO success)
- Classification of Business Processes suitable for offshore BPO
- Engagement options that are available to companies designing offshore BPO strategy
- Development of organizational strategy for offshore BPO
- Perceived risks associated with offshore BPO

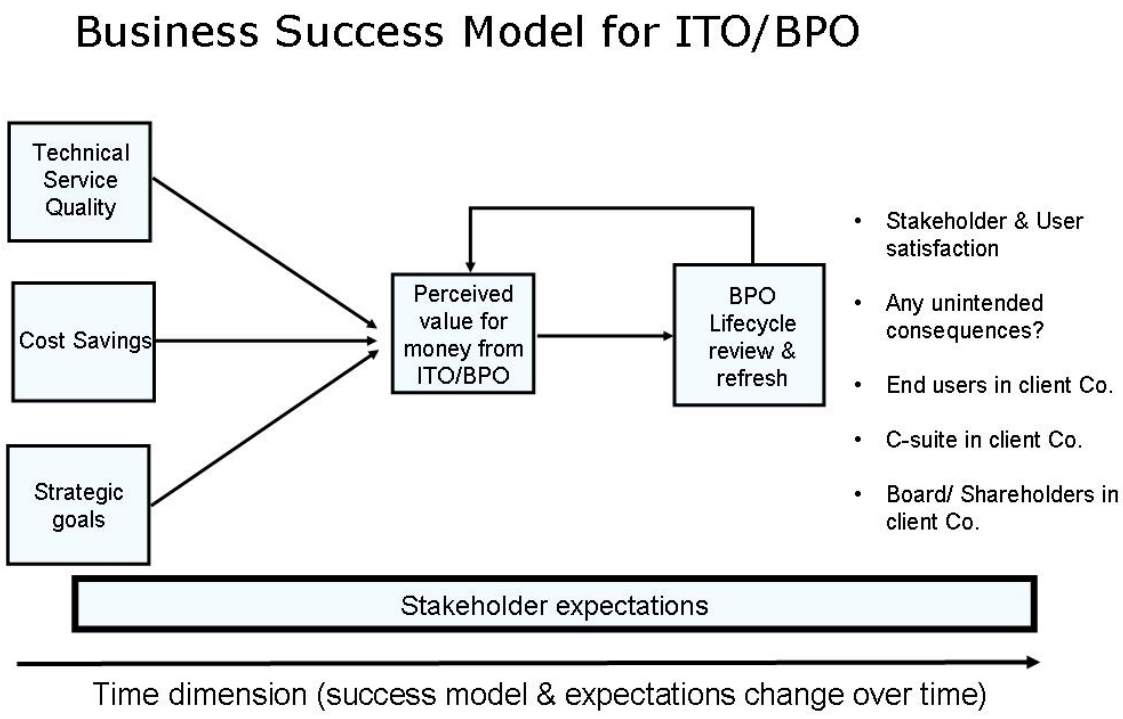
2.1 Organisation's Criteria for Assessing Success of Offshore BPO

A number of academic studies point to the somewhat surprising lack of an accepted success construct for measuring ITO and BPO outcomes (Dibbern, Goles, Hirschheim and Jayatilaka, 2004, Cullen, 2005, and Cullen, Seddon and Willcocks, 2008).

In a widely cited study, Grover (1996) identified three categories of target outcomes from ITO: economic (cost savings), technological, and strategic. While these indicators are valid, they are not sufficient unless combined with a multi-stakeholder perspective to determine satisfaction in the client organisation with IT outsourcing (Seddon, Cullen, Willcocks, 2002, Alborz, Seddon, Scheepers, 2003). Client or end user satisfaction is seen as a consequence of "weighing up of costs and benefits, often judged relative to expectations".

Based on observations from an exploratory field survey together with a review of ITO research literature, the authors adopted the model in Figure 1 below as the "success construct" for offshore services outsourcing (ITO and BPO) in the in-depth case studies.

Figure 1: Motivation of Organisations for Conducting Offshore BPO



This BPO success model draws upon concepts proposed by Rouse (2007) for cost savings, technical services quality and strategic issues, and incorporates the dimension of user satisfaction judged relative to expectations proposed by Seddon, Cullen and Willcocks (2002). It is also consistent in high level terms with a 25-point conceptual

framework for ITO success (Cullen, Seddon and Willcocks, 2008), the high level parameters of which are defined as financial, operational and strategic.

Observations from the field study supported the conclusion that success must be assessed against each company's own, different criteria, and that goals sought from BPO are likely to change over the duration of a contract or engagement (Oshri, Kotlarsky and Liew, 2008, Cullen, Seddon and Willcocks, 2008).

2.2 *Classification of Business Process Outsourcing Activities*

BPO can be defined as "delegation of an IT-intensive business process to an external provider who owns, administers and manages it, according to a defined set of metrics" (Gartner 2004, quoted in Rouse and Corbitt, 2004).

BPO can be defined in terms of various "back office" functions, such as human resources, finance and accounting, processing of insurance and credit transactions, procurement, and IT services (Feeny, Lacity and Willcocks, 2003). Some writers view ITO as a subset of BPO (Robinson and Kalakota, 2004). For this paper, BPO is defined as the outsourcing of any knowledge-intensive business process, including IT processes. The degree of overlap between ITO and BPO is particularly evident when the research subject is offshore BPO (Rouse and Corbitt, 2004).

There are various classifications for the types of BPO activities. For example, BPO activities may be classified by the extent to which the task is unscripted and/or requires domain (or vertical market) knowledge (Bhargava, 2006, Nilekani, 2007). "Knowledge Services" is often used to refer to this type of BPO performed by people with specialized skills and knowledge. 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 (Ramachandran and Voleti, 2004).

Research literature is contradictory in the assertion by some authors that offshore BPO is most suitable for low level, routine, non-core processes (Ramachandran and Voleti, 2004, Bhargava and Bhatia, 2005) whilst other authors state that the most significant business benefits can be obtained through outsourcing Knowledge Services; by utilizing highly skilled resources in processes which might be considered core or critical competencies (Carmel and Agarwal 2002, Tas and Sunder 2004).

2.3 Engagement options available to companies utilizing service providers located in India

For western companies seeking to engage in BPO with service providers located in India, a variety of ownership and relationship structures are possible (Ramachand and Voleti 2004)

- Establish a captive operation (i.e. wholly owned subsidiary) at a carefully chosen location in India

- Engage with an Indian company that is a global BPO service provider and which has a western presence (e.g. Infosys)

- Engage with a multinational company that has a significant BPO workforce located in India (e.g. IBM Global Services, Accenture, etc.)
- Engage directly with Indian BPO service providers by conducting search and contracting activity in India

A related model is that developed by Carmel and Agarwal (2002). Maturation stages are offshore bystander, offshore experimenter, proactive cost focus and proactive strategic. Although concerned with offshore outsourcing of IT work, the maturation stages proposed appear to be highly relevant to engagement options for offshore BPO. A limitation is that Carmel and Agarwal's research is highly US-centric, being based on interviews with executives in 13 large US-headquartered companies.

Utilizing a captive model may eliminate some of the inherent tensions and management overheads associated with arms length contracting. In an operation based upon 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 be mitigated (Carmel and Agarwal 2002).

Captive operations are reported as accounting for about 60% of the overall BPO market in India, and for more than 70% of BPO classified as "knowledge services" (Bhargava and Bhatia, 2005). This finding appears consistent with the observations of Lacity, Willcocks and Rottman (2008) that firms are much more likely to utilise a captive center for offshore BPO than for ITO, a difference attributed to greater level of maturity in ITO market together with a client perception that BPO services may be more critical to organisational success

Noting that 80 companies (53.3%) of the Fortune Global 150 have established captive centers in India, Oshri, Kotlarsky and Liew (2008) have proposed a framework for analyzing the strategic options available for developing offshore captives. The framework is based around the following options:

- Basic or "pure" captive
- Hybrid captive
- Shared captive
- Divested captive
- Terminated captive

They report that 24 (30%) of the 80 Global 150 firms with captive centers in India have evolved their strategy in the last six years. This data appears consistent with the findings of Cullen, Seddon and Willcocks (2008) that firms' criteria for offshore outsourcing success will change over time.

2.4 Designing an Organisation's Offshore BPO Strategy

While IT outsourcing and particularly offshore outsourcing has shown significant growth over the previous two decades, it is common to find both academic and practitioner literature referring to relatively high rates of failure and management dissatisfaction with results of ITO decisions (Rottman and Lacity, 2006, Rouse and Corbitt, 2007). These findings suggest that ITO research provides insufficient guidance in designing effective services outsourcing strategies.

Growth in the range of ITO and BPO options makes the task of offshore BPO strategy design more complex. Cullen (2005) believes that organisations now face an "inestimable number of choices"; this is a source of "constant conflict" in the advice presented by the ITO literature. Referring specifically to BPO, other authors describe a "dizzying set of evolving choices" around such matters as sourcing locations, engagement models, service offerings by suppliers and maintenance of in-house capabilities (Lacity, Willcocks and Rottman, 2008).

A review of ITO literature suggests comprehensive or holistic models of ITO strategy are rare (Schoeman et al, 2008). Cullen (2005) defines an organisation's ITO Configuration as "a high-level description of the structural choices the organisation makes in crafting its ITO arrangements". This model, with its emphasis on the likelihood of changes over time and hence the need for active lifecycle management of the portfolio, provides a foundation for offshore BPO strategy design.

Trends towards offshore sourcing of complex, higher skilled and hence difficult to codify business processes (Levina and Su, 2008) make it likely that organisations will develop a BPO strategy that involves formal controls around transfer of client-specific knowledge. This category of BPO requires for its success that client organisations and their outsourcing suppliers (which may include an offshore captive center) develop trust, collaborate effectively and invest jointly in knowledge management (Lee, Huynh and Hirschheim, 2007, Levina and Vaast, 2008).

A solution may involve companies designing and governing a portfolio of sourcing relationships (Cullen, 2005, Levina and Su, 2008). This requires complex trade-offs between the need to make relationship-specific investments and to build trust between client and suppliers, and the potential advantages of tapping into a rapidly developing global services supply chain. However, coordinating and governing multiple relationships at a distance increases management overheads, with potential to erode any cost savings, and there may be high switching costs associated with consolidating or changing partners (Rouse and Corbitt, 2007, Lacity, Willcock and Rottman, 2008).

3. RESEARCH METHODS AND DATA COLLECTION

The overall data set utilized in the research was gathered over a period of three years (2006-2008) with staff and senior management of 6 client firms and 5 service providers, located across 8 cities in India, Australia and Europe. The data utilized in the case studies of British Airways, WNS and ANZ was gathered through interviews conducted over a period of three years with staff and senior management of each firm, in Bangalore, Mumbai and Gurgaon, India and in Perth, Melbourne and Sydney, Australia, together with a review of company documentation and formal presentation material. A number of telephone interviews were also conducted with British Airways staff in the United Kingdom. Data collection has involved approximately 120 hours of interviews. For all interviews, a semi-structured format has been utilized[1] which enabled interviewees to expand on their responses to open-ended questions and provide additional information.

[1] An interview script is available upon request but is not included here due to space limitations.

There were 26 individuals interviewed as part of the case studies on British Airways, WNS and ANZ. Interview subjects included CEO, CIO, senior functional executives and managers and staff occupying a range of positions within the two captive operations. Major interviews were recorded, transcribed and written up as a structured narrative which included analysis of what appeared to be key insights from that interview. Participating subjects were provided with a copy of the interview notes in the form of this structured narrative, and were asked to verify accuracy. Some interview subjects returned marked up corrections via email, or added additional information and commentary. In other instances, interview subjects confirmed the accuracy of the notes by email or telephone conversations.

Some individuals were interviewed on multiple occasions in the course of the case study research, in order to seek additional insights, clarify issues arising from earlier interviews, or to track progress with major issues (for example, the IPO of WNS).

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.

4. OFFSHORE BPO UTILISING A CAPTIVE BUSINESS MODEL

Because collaboration quality will be higher and capturing and leveraging knowledge will be easier than in "arms-length" contracting, the captive model seems an obvious fit where the scope of BPO involves knowledge services. Both British Airways and ANZ Bank had acquired more than a decade of experience with their captives when these case studies commenced and were therefore selected as particularly suitable for analysis of the success factors in managing offshore BPO.

4.1 ANZ's BPO Strategy: Daring to differ from its competitors

Overview

ANZ was founded in 1835 and is now one of the 5 largest companies in Australia, and is expanding rapidly into Asia. Unlike its Australian banking rivals, which are only now looking to reduce back-office costs through contracts with Indian BPO service providers, ANZ has had a long-standing commitment to source IT and BPO skills in India through its operations based upon 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.

Addressing the Trans-Tasman Business Circle in Sydney in November 2007, 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".*

People Management and Organisational Development at ANZ OTSS

Currently, ANZ employs 3,400 people in its Bangalore captive operation. About 1,800 are engaged in IT service, 1,400 work on business processes and 200 people provide management and administrative support. The work performed by ANZ staff located in Bangalore falls into the Knowledge Services category; it requires application of business judgement and also deep knowledge of the banking and finance domain.

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. In terms of maturation stages for offshore outsourcing, ANZ OTSS clearly fits the description of proactive and strategic (Carmel and Agarwal, 2002).

Asked to summarize the workplace culture of ANZ OTSS, Managing Director Fred Bertram notes:

> *"There are cultural differences in India, hierarchy is revered and staff members are less prepared to come forward and are unlikely to say no. We are very clear that ANZ OTSS is an Australian organization. We revere the culture here but we remember who we are. We are not here as apologists. We make sure that all staff know about our standards and our values. We spend a lot of time explaining the ANZ brand, and telling staff 'if you see stuff you know will hurt the ANZ brand, you must tell us'".*

Business Benefits delivered by ANZ OTSS

ANZ obtains significant reductions in its cost-to-income ratio from the successful performance of the Bangalore operation. As well as IT development and support, functions performed in Bangalore include back-office processing for credit cards, mortgages, wealth management products, accounts payable and human resources. ANZ executives consider that OTSS delivers a 50% reduction in operational costs from the business processes performed in Bangalore. ANZ pays $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). Bertram estimates that it will take at least 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" processes from anywhere within its global operations, deliver immediate cost reductions and then achieve further benefits 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 in Asia.

Compared to contractual models for offshore outsourcing, ANZ executives believe that the captive model offers advantages in capturing and leveraging knowledge when the business drivers are transformation and strategic agility.

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 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.

According to Bertram, the success of ANZ OTSS has been due to

> *"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".*

4.2 British Airways successful BPO and ITO to India

Overview:

The period immediately following the September 11, 2001 attacks on New York and Washington DC and a suspension for a period of transatlantic flights (a profit engine for BA), proved a disastrous period for many airlines.

And yet by 2005, British Airways was the world's most profitable airline. How was this turnaround achieved?

Following a loss of £200m GBP in 2002 on the back of 9/11, CEO Rod Eddington launched the "Future Size and Shape" program 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.

ITO and BPO in the "Future Size and Shape" Program

ITO and BPO played major roles 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. Eddington's IT credo was

> *"there are no IT projects, there are just business improvement projects in which IT is a critical enabler".*

Selective outsourcing of some aspects of IT 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, BA was able to obtain 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.

Starting Small: Business Process Outsourcing (BPO) by British Airways to WNS Global Services

British Airways (BA) 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 and Kalakota, 2004).

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. According to Shaw (2003), British Airways chose India for their first foray into offshore BPO 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".*

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 "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. Additional business processes in financial operations and the BA Executive Club were identified and transferred to WNS, so that by 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).

However, Eddington (2005) has emphasized that the benefits of offshore BPO to India go beyond cost saving. The quality of staff and management in the WNS Global Services in India has led to continuing process improvements and productivity gains that go well beyond the benefits of cost reduction through labour arbitrage, noting that:

> *"The fact that India is four hours ahead of the UK means that our team can this afternoon can 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 morning to address the challenge, they'll find that key elements of it have been solved by our people in India."*

Evolution of British Airways Captive Operation

The success of WNS attracted interest from other airlines that outsourced similar functions, such as revenue accounting and management of Frequent Flyer Programs, to WNS. This diversification of revenue and customer base 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 21st 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" BPO 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, another major milestone on the journey from British Airways "captive operation" to one of the world's leading independent BPO companies.

The evolution of WNS from 1997 to 2002 illustrates that British Airways moved rapidly through stages 2-4 of the offshore maturation model (Carmel and Agarwal 2002). It has also progressed through the stages of pure, shared and divested captive (Oshri, Kotlarsky and Liew (2008), consistent with the theory advanced by these authors.

British Airways' Business Process Outsourcing Strategy

British Airways BPO strategy succeeded at multiple levels in creating social capital; the airline obtained significant benefits for its core business, helped to create a new Business Process Outsourcing industry in India and harvested value for shareholders through well-timed introduction of private equity and then an IPO of WNS.

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 offshore BPO 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. CONCLUSIONS FROM THE CASE STUDIES

British Airways and ANZ Bank both commenced BPO in India with captive operations, based on a strong preference to maintain control over their transactions and security of their key data and intellectual property. Over time, the strategic outsourcing paths of the two companies diverged because of different business and industry contexts.

British Airways expanded the scope of its captive operation by taking on BPO work from other companies in the travel sector, introduced private equity and then conducted a successful initial public offering. The resultant independent business, WNS Global Services, is now a world-class provider of BPO services, and BA remains a large client.

ANZ has considered the same strategic options but adopted a different approach. It has expanded the size of its captive operation in Bangalore, has integrated it more tightly into the parent company, and is taking management talent from the Bangalore unit into other parts of its global business to support Asian expansion. ANZ is capitalizing on the demographic dividend offered by its Bangalore captive operation.

Both ANZ and BA report that the "bottom line" metric is that offshore BPO improves productivity by at least 40% - 50% if executed successfully. These case studies, and others conducted by the authors, also demonstrate that the business benefits of offshore BPO go well beyond labour cost arbitrage. Perhaps the most valuable benefit has been the infusion of new skills, energy and knowledge of best practice. Other benefits include relieving staff and skill shortages, cycle time reduction and process improvement (Khan, Curry and Guah 2003).

The captive model appears to have strengths in facilitating communication, trust, sharing of intellectual property including tacit knowledge and company trade secrets, and promoting effective conflict resolution, factors which have been identified as contributing to the success of outsourcing arrangements.

Key risks include high rates of staff attrition and development of a sustainable local management model (Oshri, Kotlarsky and Liew, 2008). Difficulties with local management models arise because of the need to develop a cadre of managers who exhibit "cultural agility". This refers to the management capability to understand and work effectively within the parent (or client) company culture while also being able to function with similar dexterity in the business culture of the captive (Hofstede 2001).

While captive operations appear to offer significant advantages in terms of capturing and leveraging knowledge, they also require significant senior management commitment and perseverance over 2-3 years in order to deliver business benefits and mentor the emergence of a cadre of "culturally agile" managers.

"Cultural agility" is a process which works in both directions. Parent company managers acquire insights into the capabilities of staff in the captive operation and the BPO industry in the host country. Staff in the captive acquire insights into the business processes and tacit knowledge of the parent company. Developing a cadre of "culturally agile" managers changes the culture of both the parent and captive; the change may happen more rapidly and more thoroughly in the case of a captive model because developing trust is easier.

5.1 ANZ and BA Definition of Success for Offshore Services Outsourcing

Data gathered in the case studies appears to confirm the validity of the "offshore BPO success model" set out in Figure 1. Early years of offshore BPO experience saw emphasis placed on cost reductions, but both companies quickly came to recognise the advantages that offshore BPO to India could deliver in terms of technical service quality and strategic considerations. However, strategic considerations varied significantly over time according to the business needs and industry context of each company. The proposed offshore BPO success model appears to be sufficiently robust to accommodate changes to business context.

For a number of years, ANZ Bank had primarily a cost reduction objective for its captive BPO and ITO operation in Bangalore. OTSS succeeded admirably in that respect, contributing significantly to reductions in ANZ's cost-income ratio. Technical service quality was also a major focus, managed in similar fashion through KPI's and SLA's to BA's business relationship with WNS, its former captive BPO operation.

Over the period commencing from 2004, ANZ Bank 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 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 BA and WNS executives confirmed the success model in Figure 1 above. Former British Airways CEO Eddington felt that their offshore services outsourcing 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.

The strategies with their offshore BPO captive centers diverged from 2004 onwards. ANZ began to focus their captive on delivering transformational benefits to the parent organization (Lindner, 2004). The aim was for OTSS to be at world best practice in operations and shared services for the global banking business industry by 2009.

ANZ also recognized the growing maturity of the BPO industry in India, but were concerned that the business model required hiring large numbers of graduate-level staff (to maintain labour cost arbitrage), leading to high rates of staff attrition. To reach world best practice in banking operations, ANZ believed that significant tacit domain knowledge would need to be transferred to its offshore BPO partner. Hence, it pursued an integrated captive model because it considered this approach more sustainable in terms of knowledge management and collaboration effectiveness.

5.2 Differences Between British Airways and ANZ in BPO Strategy

Differences in the BPO strategies pursued by BA and ANZ over a decade by can be identified from key decision points at which the two companies took diverging paths (see Table One below).

Table One: Offshore BPO Configurations and Timeline for BA and ANZ

a. ANZ Bank

	Phase 1	Phase 2	Phase 3	Phase 4
Period	1989- 1999	2000-2003	2003-2006	2006-2008
Business motivation (offshoring)	Cost reduction	Cost reduction Service quality	Transformation	Global best practice in operations & shared services
Supplier Configuration	Sole source for offshore BPO Limited domestic ITO outsourcing	No change	Increased focus on offshore captive	No change
Offshore activity at captive	ITO	ITO	ITO & BPO	ITO & BPO
Offshore Captive Centre Model	Pure captive Opportunistic	Pure captive	Pure captive (transforming)	Integrated captive
Offshore posture	Experimentation Cost reduction	Proactive cost reduction	Proactive strategic	Proactive strategic

b. British Airways

	Phase 1	Phase 2	Phase 3	Phase 4
Period	Pre-1996	1996-2002	2003-2006	2006-2008
Business motivation (offshoring)	Domestic ITO only	Cost reduction Service quality	Cost reduction Service quality Flexibility	Cost reduction, service quality
Supplier Configuration	Offshore none Domestic multiple arms-length	Offshore BPO via captive Offshore ITO via arms-length Domestic ITO multiple	Offshore BPO via shared captive Offshore ITO via arms-length Domestic ITO multiple	Global multisourcing
Offshore activity	None	ITO via arms-length contracts BPO via captive	ITO via arms-length contracts BPO via shared captive	ITO and BPO via arms-length contracts BPO via divested captive
Offshore Captive Center model	None	Pure captive & then shared captive	Shared captive, Equity partners	Divested captive
Offshore posture	Bystander	Experimentation	Proactive cost focus	Proactive strategic

Business Needs

ANZ Bank operates in a strongly-enforced prudential and regulatory environment which reinforces the advantages of a pure captive model where it can control intellectual property and operational knowledge. ANZ also saw that its regional and global competitors were operating captives in India, and it decided that it needed to retain and strengthen its own captive in order to at least maintain competitive parity.

From 2004 onwards, ANZ sought to utilize the capabilities of OTSS to achieve best practice operations in the world of any full service bank by 2009. To facilitate full integration of OTSS, it shifted the reporting line of the offshore captive from CIO to banking operations.

BA executives did not think that they were losing any competitive advantage by taking on back office work for other airlines, and thus transforming their pure captive into a shared captive. The importance of cost savings in BA's "success model" for offshore BPO meant that their was business advantage in increasing the volume of work being processed by WNS, because economies of scale gained as a result would further reduce BA's costs.

Throughout its history, WNS reported to BA's head of alliances, partnerships and joint ventures. In terms of ownership of WNS, BA's strategic posture was that it would adopt whatever evolving relationship enabled the airline to source the most appropriate skills and capabilities at an appropriate cost. BA expected the ownership of WNS to evolve as the offshore BPO industry matured.

Neither BA nor ANZ were operating captive centers in locations other than India. For ANZ, this was due to the recognized advantages of India as an offshore BPO destination, its language, commercial and legal compatibilities with ANZ's home country environment and a close fit with its Asian expansion strategy. In the case of BA, India offered similar advantages as a BPO destination and the airline had more than 70 years operational experience and significant in-country investment in personnel and airline operations. It also saw that India offered significant opportunities for growth in passenger and freight traffic.

Industry Structure

British Airways faced difficult structural fundamentals in the global airline industry which for much of the period under study was in crisis. By contrast, ANZ enjoyed a favorable industry structure and strong economic growth in its core markets in Australia, New Zealand and Asia. Using the framework developed by Miles and Snow (1978) for characterizing strategic choices available to individual companies, BA was a "defender" firm while ANZ can be characterized as an "analyzer/prospector".

A senior BA executive characterised the company's strategic during the period in which WNS moved from a shared captive to a divested captive:

> "*The airline industry was under siege during this period. We knew that we had a valuable asset in WNS. The question was how to maximize value from that asset. The pressures on the company really drove the strategy [to position WNS as a divested captive]. We had established deep relationships, and we knew that the people at WNS would continue to deliver business benefits for BA irrespective of ownership structure."*

As a "defender" firm, BA could be expected to drive its BPO strategy to deliver cost efficiency, and it is consistent with this strategic posture that BA moved progressively away from a wholly-owned captive model to arms length contracting for BPO services in the search for cost reduction. The deep relationships that BA had developed with WNS meant that collaboration efficiency (Levina and Vaast, 2008) had been established. By contrast, ANZ is an "analyzer/prospector" firm with a focus on developing new growth markets in Asia. ANZ looked to its captive BPO for a "demographic dividend" at a time when it was facing acute skill shortages in the parent country.

Taking on BPO work for other companies in the same industry

BA elected to take on work from other airlines at its captive BPO center, and thus began to create options for spinning off and monetizing the value it had created. This decision is consistent with the "defender" strategic posture, because a higher volume

of work at the captive BPO resulted in lower unit costs for BA at a time when it was relentlessly focused on cost efficiency.

ANZ also had opportunities to take on work for other companies in the banking industry, but elected to maintain the focus of its captive BPO solely on internal work; again this appears consistent with its "analyzer/prospector" strategic posture. ANZ decided to leverage the business and proprietary knowledge that its captive had acquired to increase its value proposition. Taking on BPO work for other banks may have diluted the competitive advantage that ANZ was obtaining from OTSS.

Regulatory and Risk Environment

The airline and banking industries are both highly regulated by national Governments, but the perceived impact of risks associated with offshore BPO is higher in the banking industry. Stakeholder perceptions regarding perceived regulatory and risk issues associated with offshore BPO have been a major influence in decisions by ANZ management to maintain a captive BPO operation.

Skills shortages

ANZ has faced acute shortages of IT and other skilled business professionals in Melbourne, its headquarters city. ANZ's captive operation in Bangalore offers the prospect of a "demographic dividend" in the form of culturally agile managers who have acquired deep knowledge of the bank's business culture and processes. Skills shortages have been a significant factor in influencing ANZ management to develop the Bangalore operation as an integrated captive.

Executive Leadership

The BPO strategy at BA was led and driven by Sir Rod Eddington, who epitomizes the model of a "culturally agile" CEO with a deep understanding of the possibilities of global sourcing. By contrast, until the recent appointment of Michael Smith as a "culturally agile" CEO at ANZ, previous executive leadership teams appeared more strongly focused on management of the regulatory and risk environment.

Are there any references to captives that have been unsuccessful?

Oshri, Kotlarsky and Liew (2008) provide data on 7 firms from the Global Fortune 150 that have terminated their captive operations in India within the past 5 years. Reasons reported for termination included miscalculation of costs involved (Apple, Inc.), consumer pressure (Aviva, Axa, E.ON, Lloyds TSP Group, Santander), and concerns over security of data and quality of service.

Did the case study participants consider different options for their operations, and would decisions be different now?

Management in each of the case studies systematically reviewed and evaluated different options for the evolution of the captives. The research confirmed that decisions about the evolution of the captive operations were highly specific to the business context applicable at the time. To the extent that business contexts have

changed, it is highly likely that decisions would be different now. This is consistent with the findings of Oshri, Kotlarsky and Liew (2008) and Cullen, Seddon and Willcocks (2008) that utilization of offshore captive assets will change over time and also that outcomes sought from outsourcing have a temporal dimension.

What made these captive operations successful?

Success factors that are common to these case studies include:

- Senior management leadership and commitment, together with perseverance over a long period of time
- Emergence of a cadre of culturally agile managers in both parent and captive organisations
- Effective knowledge management

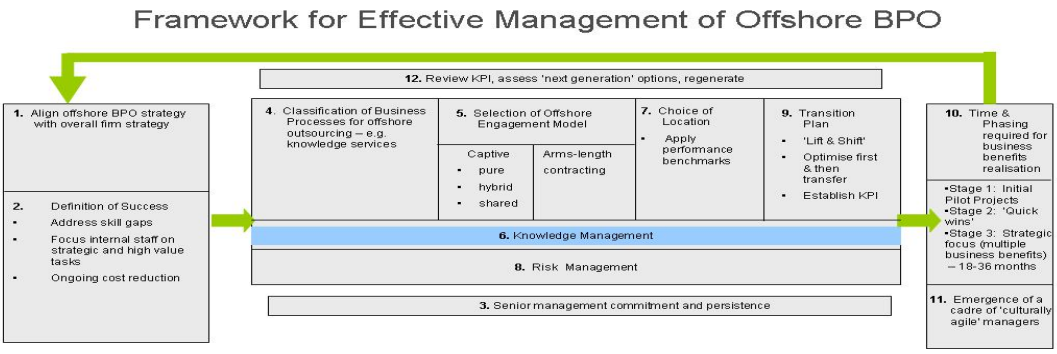
Section 6 below integrates factors identified in these and other case studies conducted by the authors into an overall framework of Critical Success Factors that contribute towards successful management of offshore BPO.

6. FACTORS THAT CONTRIBUTE TOWARDS OFFSHORE BPO SUCCESS

Since an aim of the research is to assist in bridging the gap between management practice and emerging academic theory, a framework relevant to practitioners involved with offshore BPO investment decisions has been developed (see Figure 2 below). Data gathered from multiple in-depth case studies (including both captive centers and arms-length engagement models) has been applied to develop a Critical Success Factors (CSF) model applicable to the management of offshore business process outsourcing. CSF are defined as those areas of activity, generally few in number, in which positive results will ensure successful competitive performance (Bullen and Rockart, 1981). Generally, CSF will be specific to business context.

The case studies of British Airways and ANZ Bank (and others conducted as part of the authors' on-going research) have allowed the CSF framework to be tested and modified on an iterative basis utilizing additional data gathered in a series of longitudinal case studies, a process that is continuing.

Figure 2: Management Framework Based on Critical Success Factors



1. Align offshore BPO strategy with overall firm strategy (in other words, define offshore BPO 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 ITO strategy are rare (Schoeman et al, 2008). It is important to review the strategic intent of offshore captive centers or "arms' length offshore outsourcing contracts at regular intervals, noting that criteria for business success and utilization of offshore assets will most likely change over time.

   Establish governance arrangements for the offshore BPO project; in particular alignment of BPO project objectives with business objectives, optimization of resources committed to BPO project, risk identification and management, alignment and communications mechanisms. Establish clarity regarding decision-making rights that are being transferred to Indian captive or BPO service provider

   Note: Research evidence suggests that successful BPO projects usually involve transfer of significant decision-making rights to the service provider. A key point is that there should be absolute clarity around decision-making rights.

2. Start with a clear business rationale and definition of "success" for the offshore BPO strategies (e.g. cost saving, alleviate skills and resource shortages, free up internal resources for growth opportunities, transformational outsourcing, etc.). Refer to Section 2.1 for the definition of success that has been derived from the case study data.

3. Commit significant leadership and management resources to understanding the Indian context, understanding the BPO market and acquiring knowledge of cultural factors that must be managed to achieve success

4. Focus detailed management attention on the classification of the Business Processes to be outsourced (refer to Section 2.2 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 offshore BPO

5. Systematically define and evaluate engagement options that match BPO market capability against the nature of the processes and activities being outsourced, the business objectives for offshore BPO, and the transformational goals (i.e. improvements over time in the cost, quality and functionality of the business processes). See also section 2.3 above.

6. Develop a formal Knowledge Management strategy for offshore BPO projects, noting that Indian 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 service provider located in India is captured and leveraged (see also factor 8 below in respect to a core capabilities model for both company and supplier capabilities)

7. Establish clear objectives and metrics for offshore BPO and implement a Performance Management System for offshore BPO execution that reflects the definition of "success" (see also section 2.1). These metrics can also be applied to assist in selecting the most appropriate location for offshore BPO activities.

8. Conduct a formal risk assessment (refer to Section 2.5 for a summary 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 organizational knowledge by adopting a core capabilities model such as that proposed by Feeny, Lacity and Willcocks (2005). Choice of location should be validated as part of the initial formal risk assessment.

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

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

Stage One:	Initial pilot projects in offshore BPO
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 offshore BPO to Indian service providers (e.g. 18 to 36 months).

11. Senior management must establish communication and alignment mechanisms between the host company and the service provider located in India (which may be a captive operation). It is a critical success factor to establish relationship quality and trust in the case of an arms length contract with a service provider located in India, and a sense of "one organization" in the case of a captive operation. The alignment process should include mentoring a cohort of "culturally agile" managers.

12. It will be necessary to refresh the BPO strategy and choice of engagement options at appropriate intervals because both business context and supplier capabilities will change with time.

7. LIMITATIONS OF THIS RESEARCH

A limitation of this research is that it is focused on two global companies that operate from Australia and United Kingdom, and both companies have pursued one particular BPO model (i.e. captive operation). In addition, it is confined to two industry sectors and is based on qualitative data gathered over a relatively limited time span of just over 3 years. However, published case studies on the captive model in offshore BPO are scarce, and the case studies are intended to add to the literature on this currently under-researched area.

Future research will track the evolution of the BPO models at ANZ, British Airways and WNS through longitudinal case studies. Other case studies currently underway are gathering data across a broader range of Australian and multinational companies participating in offshore BPO. Data is being collected on a range of industry sectors, company sizes and different offshore BPO engagement models to enable cross-case comparisons.

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 offshore BPO model has delivered business benefits. As noted by Rouse and Corbitt (2003), companies are less willing to provide information and access to projects that are considered to be unsuccessful or experiencing difficulties.

8. CONCLUSIONS

Data gathered in the case studies has been utilized to identify success factors in managing offshore BPO using a captive model. A framework for management of offshore BPO has been developed based on the data gathered in these and other case studies. While development of the management framework is the primary goal of the research, other related conclusions have also been drawn from the data collected.

The success model for offshore BPO is based on a combination of cost savings, technical service quality and strategic issues, and also incorporates the dimension of user satisfaction judged relative to expectations. Data gathered in the case studies validated the proposed success model and supported the conclusion that offshore BPO

is specific to business context and will change over time (Cullen, Seddon and Willcocks, 2008).

Findings from this study provide support for the emerging theory proposed by Oshri, Kotlarsky and Liew (2008) regarding the evolution of ITO and BPO captive centers.

The research confirms that captive centers offer advantages for higher order offshore BPO classified as "knowledge services". These advantages arise from higher levels of relationship quality, trust and collaboration, and from facilitating knowledge capture and transfer.

The model for effective collaboration proposed by Levina and Vaast (2008) has explanatory power in understanding the advantages of captive centers for higher order activities. Well managed captive operations provide an environment in which boundaries based on national, cultural and status differences can be redefined to improve collaboration effectiveness (Levina and Vaast 2008).

A potential contribution of this research is that it may assist in identifying factors driving the reported higher rate of adoption of offshore BPO via captive operations as compared to ITO (Lacity, Willcocks and Rottman, 2008).

The findings in this paper have practical implications for managers involved with designing and implementing offshore BPO strategies. Companies that wish to maintain a pure captive model should aim to increase collaboration efficiency with their captive center in order to leverage the business and proprietary knowledge acquired by the captive, and thus stay ahead of the value propositions offered by the maturing BPO industry.

Both ANZ Bank and BA demonstrate the importance of promoting internal acceptance of the outputs from captive centers in order to break down barriers associated with cultural factors, status differences and geographical distance (Levina and Vaast, 2008). By taking actions to promote internal acceptance, ANZ and BA management were proactively reducing the "perceived distance" in the relationships with their offshore captive BPO centers (Aubert, Rivard and Templier, 2009) and thus lowering risk and increasing likelihood of strategic success.

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