Living with Offshoring:
The Impact of Offshoring on the Evolution of Organizational configurations

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ABSTRACT:

Offshoring allows firms to pursue greater flexibility at lower costs, but it also presents major structural and managerial challenges. Adopting the activity configuration perspective, we argue that offshoring creates tensions between benefits to the competitive position of the firm, and potential disruption to the cohesion and consistency of the organization's internal activity configuration. We further argue that both benefits and risks increase as organizations move from offshoring low to offshoring high value-creating activities, and as they seek tight as opposed to loose couplings among offshored and onshored value-creating activities. Our research site is the UK operations of Tiscali, a European telecommunications firm. We examine how Tiscali uses offshoring as it grows and expands its service offerings from single, to double, and then triple play, and also analyze how Tiscali addresses the ensuing disruption to its activity configuration. We conclude with implications of our study to future research on offshoring.

Keywords: IT Outsourcing, Offshoring, Organization Configurations; Activity Interdependence; Strategic Decision Making

INTRODUCTION

Research on offshoring brings together two perspectives on the evolution of organizations. The first perspective focuses on the macro level dynamics of offshoring at the level of the industry, nation, and the world (Doh, 2005; Farrell, 2005). This perspective sees offshoring as part of a global revolution in communications and transportation, and thus tracks the offshoring behavior of groups and populations of firms that imitate and learn from each other. The second perspective focuses on activities at the firm level (Tadelis, 2007). This perspective attempts to understand the factors that lead firms to undertake offshoring as a strategic move, and the problems that firms encounter when attempting to maximize the advantages and minimize the disadvantages of this particular strategy.

This paper builds on both perspectives. Our intention is to investigate why the promise of offshoring that is so evident at the macro level is often so difficult to attain at the micro firm level. To answer this question, we turn to the configuration view of strategy, which defines strategy as the formation, and subsequent reinforcement, of a set of interlocking value-creating activities (Miller and Mintzberg, 1983; Porter, 1996; Rivkin and Siggelkow, 2003; Porter and Siggelkow, 2008; Csaszar and Siggelkow, forthcoming). According to the configuration view, the key to superior performance is achieving internal consistency of the organization's core configuration while at the same time maintaining a favorable alignment with the external environment. But the two goals can be at odds - especially when the strategic moves used to improve alignment with the external environment disrupt the relationship between key parts of the configuration (Meyer, Tsui and Hinings, 1993). When this happens firms must struggle not only to successfully execute the strategic move, but also to address the disruption to core configuration that occurs as a result of this move.

How organizations meet this challenge is the central theme of our paper. The response to the challenge begins with assessment of the potential of offshoring as a strategy that can deliver a variety of advantages: cost reduction, faster innovation, and improved core competencies. In practice, however, the disruptive impact of offshoring on the organization's core configuration can significantly curtail the advantages of this strategy. To realize the advantages of offshoring organizations must rectify the negative consequences of this strategy, and in most cases they must do this as during the offshoring move. Living with offshoring often turns out to be more difficult than organizations initially suppose.

We examine how Tiscali UK, a telecommunications firm that began operations in 2001, has been dealing with this dilemma. Our research is based on public documents, company archival sources and interviews conducted with managers at multiple levels from March 2007 to February 2008. Our paper is structured as follows. We begin with an overview of configuration theory as it applies to offshoring. We next describe Tiscali's history and operations before turning our attention to a detailed examination of the company's offshoring efforts. We conclude with an analysis of how firms can address the tension between offshoring and internally consistent and cohesive configuration.

THEORETICAL OVERVIEW

Offshoring and Strategic Outsourcing

The emergence of offshoring as a distinct strategy must be seen against the background of the increasing use of strategic outsourcing more generally. In one of the earliest papers on this topic, Quinn and Hilmer (1994) argue that strategic outsourcing, defined as the transfer of activities previously undertaken by the firm, to other organizations, is part and parcel of the effort to build strategic advantage on what Prahalad and Hamel (1990) define as "core competencies". Subsequent research on strategic outsourcing shows that it is not only a focus on "core competencies", or key strategic activities, that define outsourcing, but also the strategic advantage

that may be derived from the interaction with the firms that provide the outsourced goods and services that make the case for strategic outsourcing. This shift in perspective has led authors such as Holcomb and Hitt (2007: 466) to define strategic outsourcing as "the organizing arrangement that emerges when firms rely on intermediate markets to provide specialized capabilities that supplement existing capabilities deployed along a firm's value chain."

Offshoring and strategic outsourcing share certain similarities, and at least initially the push to offshore can be seen as an extension of strategic outsourcing. However, as increasing number of firms in the United States and Europe began to relocate activities from their home base to distant locations, mostly in Asia, the differences between strategic outsourcing and offshoring led practitioners and researchers to search for a new term. "Offshoring", the term that eventually gained currency, certainly captures the sense that activities are being moved far beyond home shore, but analytically it straddles the line dividing strategic outsourcing and offshore transfer of activities that are not part of strategic outsourcing. In particular, while outsourcing implies the transfer of activities to separately owned firms, regardless of where they are located, "offshoring" is used to describe both outsourcing when it takes place offshore (i.e. a particular kind of outsourcing), and the transfer of activities to offshore location while retaining ownership and control of operations (i.e. a non-outsourcing move). To complicate matters further, as Kenney, Massini and Murtha (2009) point out potentially this transfer may target any internal or external activity that firms employ to serve home country or global markets. This observation is supported by Doh, Bunyaratvej and Hahn, who define offshoring as: "the transnational relocation or dispersion of services activities. Offshoring can include captive (internal) or externalized (outsourced) activities" (2009: 927). In other words, under some circumstances, offshoring may have nothing to do with strategic outsourcing, and in others it may actually be the very opposite, in the sense that firms may decide to 'in-source' activities performed by external firms in their home markets by transferring them to in-house operations at an offshore location.

Current studies of offshoring decisions for the most part ignore the implications of the multiple home-to-offshore transfer paths that firms can follow. These studies instead focus on the specific advantages and pitfalls of this strategic move (Lampel and Bhalla, 2008; Bhalla, Sodhi and Byung-Gak, 2008; Kedia and Mukherjee, 2009). As we argue in this paper, the consequences of offshoring are not confined to analysis of the activity being transferred, but extend to its relationship to the organizational configuration as a whole. To understand how different offshoring paths can disrupt organizational configuration, and the implications that this has for firms that pursue offshoring we have to revisit certain aspects of configuration theory.

Configuration Theory

Contemporary configuration theory in strategy combines two distinct research streams. The first originates in research on organizational design (Khandwalla, 1973; Sanchez and Mahoney, 1996; Gresov and Drazin, 1997; Kumar, Van Fenema and Von Glinow, 2009). It emphasizes organizational interdependencies among objectives, tasks, structural units, or any other set of 'elements' that jointly establish the organization as a stable functioning system. These authors argue that the imperative of the organizational design process is to reinforce the interdependencies that enhance the ability of the organizational to adapt to its competitive environment. The second stream, by contrast, originates in the 'positioning' school of strategy. It argues that organizations seek a position in the competitive environment that delivers superior performance, and then develop an interlocking set of value creating activities that can help them defend this superior performance against threats from rivals and substitutes (Porter, 1996; Porter and Siggelkow, 2008).

The two research streams effectively have two different starting points for investigating the interaction between organizations and their environments: The organization design researchers take the organization as a starting point, while the strategic positioning researchers, by contrast, ground their analysis in the environment as a starting point. The two perspectives, as Short, Payne, and Ketchen (2008) point out, are complementary. Analysis of the environment for positions that

confer sustainable advantage cannot be divorced from the value creating activities that are already at the disposal of the organization. These value creating activities will constrain the strategic position that the organization can occupy as opposed to what the position it ideally may wish to occupy. On the other hand, when taking the organization as the point of departure researchers tend to examine its 'fit', or the extent to which its existing configuration is the best arrangement for meeting the demands of its competitive environment (Burton and Obel, 2004). Changing the configuration to improve fit confronts the fact that environmental requirements tend to cluster in specific positions, or 'strategic groups', that are defined by a particular combination of value creating activities (Leask and Parker, 2007). When the two research streams are brought together they share three conceptual building blocks: (a) organizational activities as the main unit of analysis; (b) the value creating potential of these activities; and (c) the extent of interdependence, or coupling, among these activities.

An analysis of strategy using these building blocks can begin with mapping the organizational activities, examine their coupling, or interdependence, and then based on analysis of the external environment determine whether the value creating activities, and their interaction, deliver sustainable advantage. Alternately, as pointed above, the analysis can begin with the external environment, determine which value creating activities they require, and how they should be coupled, and then examine to what extent the configuration matches does or does not match this externally derived configuration.

Although the process is portrayed as deliberate and sequential, research shows that it can also emerge through exploration and experimentation (Mintzberg, 2007). Whether deliberate or emergent, strategy is expected to evolve towards a configuration of tightly coupled high-value creating activities. In practice, however, the process is often reshaped by external change and internal inconsistencies. For example, Meyer, Tsui and Hinings (1993: 1178) point out: "Change is seen as episodic, in part because organizations are tightly coupled. The couplings are pliable up to a

point, but if stretched beyond that point, they actively resist change." Changes in the external business environment often decrease the value creating potential of some activities, and increase the value creating potential of others. To maintain their strategic advantage firms are forced to remove some activities from the configuration and adopt others, a reorientation that can be can be costly and time consuming. By the same token, external changes require firms to loosen the coupling of some value creating activities, and tighten others. While doing this, however, they often encounter new inconsistencies that must be sorted out for tight coupling to become effective.

Configuration Theory and Offshoring

Offshoring is a response to economic and technological forces that put pressure on operating margins and the rate at which firms must innovate. It was long known that offshoring could address these challenges, but it was not until great improvements in transportation and communications made offshoring practical that firms pursued this strategy across a broad range of activities. As reliance on offshoring became more pervasive, managements became increasingly concerned with the disruptive impact on the organizational configuration that flows from inter-activity problems at both the technical and human level (Kumar et al., 2009). To offshore successfully, managers have to resolve the negative impact of offshoring on operations while at the same time dealing with the debates and conflicts that usually accompany this impact. They face the challenging task to rebalance their configuration by adapting the linkages among business activity, or in some instances develop an entirely new configuration.

From a configuration perspective, dealing with the impact of offshoring require firms to decouple and then recouple the activity to the organizational configuration, and simultaneously ensure that the value creating potential of the activity transferred is maintained, if not enhanced. From this we can expect firms to encounter the least amount of difficulties when offshoring low-value creating activities that are loosely coupled. A low value-creating activity (e.g., calls and service centers) is normally not part of the core configuration that underpins the strategy of the firm.

It is likely to be part of the support activities that are managed thorough loose couplings, attenuating their impact on the rest of the configuration following offshoring. By contrast, offshoring high-value creating activities (e.g., manufacturing, logistics) that are tightly coupled to other activities will have the greatest disruptive impact on the configuration, and will be more difficult to recouple tightly following offshoring. Organizations are therefore less likely to undertake this type of offshoring unless they can be sure that the disruption to the configuration can be managed, and also that the value creating potential of the offshored activity will not decrease significantly. In between the two extremes we find the disruptive impact of offshoring, and thus the willingness or reluctance of firms to undertake them, will vary. In general, offshoring tightly coupled activities will engender more difficulties than loosely coupled activities, and likewise the potential damage to value creating activities is greater for high-value creating activities than for low-value creating activities.

RESEARCH METHODOLOGY

The Case study Approach to Offshoring

Until recently, research on offshoring strategies has focused primarily on the motives that lead firms to undertake this strategy, and the performance outcomes that flow from this move. Since motives and outcomes tend to vary, researchers have normally relied on sample-based studies to derive findings. Offshoring, however, is a dynamic process that operates at several levels of analysis. As Hatonen (2009) and Trautmann, Bals and Hartmann (2009) point out, theory development of dynamically complex systems often depend on case studies for deeper insight into the phenomenon. Used widely within strategy (Siggelkow, 2002), and international business research (Sinkovics, Penz and Ghauri, 2008) this prescription is especially relevant when the phenomenon in question involves many identifiable, yet often unclear context-related interdependencies (Eisenhardt, 1989; Yin, 2009).

A case study approach is therefore appropriate for studying organizations as complex activity systems (Meyer et al., 1993). For instance, Siggelkow's (2002) case study of the mutual fund provider, The Vanguard Group, explores the developmental processes that lead to organizational configurations and fit. Defending his choice of case-study methodology, he argues that: "Studying the underlying processes of organizational development required a research setting that allowed an analysis of an organizational system, comprising elements and interactions, at various points of time" (Siggelkow, 2002: 129). Mendez (2003) relies on case-study approach to look at the role of project groups as organization mechanisms which help the firm tighten the activity interlinkages within globally distributed R&D function in multinational firms. More recently, Kumar et al. (2009) use case study approach to examine inter-task interdependence between work segments that are offshored and globally distributed by firms such as software firm SAP AG, who rely on global distribution work model to spread knowledge intensive work across multiple offshore sites.

Case-Study Selection

The research in this paper presents a single case study of offshoring of technology enabled activities, and the impact it had on the tightly coupled interdependent activities within Tiscali UK, a telecommunication firm. Following Siggelkow's (2007) recommendations on the selection of single case studies, the case company was selected purposefully based on pre-determined criteria. The two main criteria were set beforehand in considering the firm's suitability and theoretical as well as conceptual value to the study (Eisenhardt, 1989). The first was that the firm must represent an industry, that had witnessed increasing use of IT enabled outsourcing as part of the value chain unbundling process. The telecommunication industry has been depicted as an archetypical example of such industry (Martinez-Jerez and Narayanan, 2007). When looking at telecommunication industry, we wanted to select a particular organization, which had a stand-alone configuration, i.e. was not diversified like its competitors such as British Telecom and Sky, where corporate activities are likely to span across multiple industries. Tiscali UK was the only firm, which was solely

engaged in distributing internet based services, and had a stand-alone configuration enabling us to gain insights that other organizations were unlikely to provide (Siggelkow, 2007). Secondly we want to study a firm, which enabled us to provide illustration (Siggelkow, 2007) of the complete spectrum of evolutionary adaptive response to the outsourcing and offshoring. Tiscali UK was a newcomer and relatively young compared to its competitors, but had been in operation for sufficient period of time allowing us to conduct longitudinally research to study evolution of offshoring, and the impact its had on its configuration.

Data Collection and Analysis

The data for the case study of Tiscali UK were obtained from several primary and secondary sources. A combination of public data, company archives, and interview data were collected, and used to triangulate our analysis. Publicly available data was gathered that included a complete set of historical annual reports, and business press articles on Tiscali in general and its offshoring activities in particular. Company archives supplemented publicly available data. Finally, over a period of eleven months from March 2007 to February 2008, we conducted a total of 28 personal interviews, ranging from one hour to several hours. Twenty-two of these interviews were conducted with members of Tiscali's management team and six were conducted with its two suppliers- Mahindra British Telecom (MBT) and Wipro. Our sample included individuals from different levels of the organization at Tiscali. Interviews were conducted with Chief Technology Officer *(n=1)*, senior managers from TD *(n=9)*, B2B and B2C Customer Support Operations (COPS) *(n=4)*, Finance *(n=2)*, and B2B and B2C Marketing and Sales function *(n=6)*. The average tenure of the interviewees at Tiscali was three years, ranging as low as one year and as high as seven years for the CTO. In cases where senior managers' tenure was less than two years, we sought a minimum of two additional interviews within the relevant function to corroborate the data.

From the offshore suppliers' end, we conducted interviews with the account manager and two senior project managers from both MBT and Wipro. The tenure of interviewees with their

employers ranged from three to six years. Interviews were open ended, but based on common set of questions. While interviewing the suppliers we sought corroborating information on the evolution of Tiscali's offshoring, but also supplier's perspective on the problems that ensued during the offshoring.

The interviews conducted within Tiscali usually consisted of three parts. Interviewees were asked to discuss activities which were offshored during the narrowband era, and the subsequent offshoring of various activities, such as billing, support, software development, during the transition from narrowband to broadband, and triple-play services combining voice, data and digital television. A second set of questions specifically dealt with the problems that emerged during the transition as a result of offshoring, and the impact they had on interaction within activities. This involved asking the manager specific questions concerning his or her department, for example, to provide more information on the impact of offshoring of software development on the activities carried out by his or her department or details of this impact on interaction between the activities. Thirdly, we asked our respondents to discuss how these problems were dealt with during the transition from narrowband to broadband to current positioning of Tiscali as a triple-play provider. At the conclusion of our data gathering, we conducted an in-depth interview with the CTO. Prior to the interview, we sent the CTO with a description of TD activities and interaction with other departments (see table 1), and a chronology of offshoring activities by Tiscali from 2002 to early 2008 (see table 2).

Insert tables 1&2 here

The data gathering process was iterative. Whenever we gathered new information either through interviews or archival material, we crosschecked and if necessary modified the data (Miles and Huberman, 1984). We were interested in looking at what Goodman and Rouseau (2004) point

out as how changes in activities in one unit or department (specifically as a result of offshoring) impact activities and outcomes at configuration level. Our unit of analysis was each activity, which was offshored from 2002-2008. We identified eight activities within customer support operations and technology department, which were offshored during the three phases of evolution within Tiscali from 2002-2008. We created tables (see table 1 and 2) to track this process and continued the refinement and verification process throughout the data collection. Most of the interviews were recorded, and transcribed. Having listened to the recordings and going through the interview transcripts and several versions of table 1 and 2, it was possible to extract subtle nuances that reflected the process of offshoring within Tiscali, the issues that arose during the offshoring at each activity level, and subsequently in other activities within the configuration. From this, we were also able to capture the information on the steps, which were taken to address the problems that arose during the offshoring, and the actions undertaken to contain them.

We used temporal bracketing strategy first outlined by Denise, Lamothe and Langley (2001), and more recently used by Graebner (2009) to identify changes within a process during discrete time periods, or phases. We organized the data into three time-periods corresponding to the activities offshored during each phase in Tiscali's evolution. The advantage of this approach, as Denise et al. (2001: 815) point out, is that it allowed us to "carry out explicit examination of how actions of one period lead to changes in the context that will affect action in the next." The three most important categories for the analysis and writing the narrative were (a) the breakdown of activities such as billing which were dependent on the TD (b) how these activities interacted with TD (c) the activities which were offshored during the evolution from narrowband to broadband to current positioning of Tiscali as a triple-play provider; the impact offshoring had on the interdependent activities and the overall activity configuration.

During this process, we re-evaluated the tables we had created (see table 1 and 2) and included informant quotes for each of the activities offshored. We had a series of meetings to

compare our independent analyses, and look at any differences of opinion to gain a better understanding of the data, and reach an agreement. Based on this agreement, the second author then wrote a narrative of the evolution of offshoring within Tiscali. The first author read this narrative and noted any areas of disagreement. We then had another set of meetings to reach agreement on the final version. Following this interpretation process provided an additional check on interpretation bias (Andriopoulous and Lewis, 2009) and internal validity (Burgelman, 2002; Boland, Lyytinen and Yoo, 2007). To corroborate our narrative of Tiscali's offshoring, we sent the case study to six managers we had interviewed: four senior managers representing the TD, marketing, sales and COPS functions, and both the project managers from Wipro and MBT. We incorporated the input we received in the form of additions or corrections on factual data in the case.

EVOLUTION OF TISCALI AND THE IMPACT OF OFFSHORING ON TISCALI CONFIGURATION

Overview of Tiscali's History and Operations

Founded in January 1998 in Sardinia, Italy, by Renato Soru, Tiscali began life as a fixed-line telephone operator. Following listing on the Milan stock exchange in October 1999, it embarked on a pan-European expansion plan, acquiring internet service provider (ISP) firms such as France based Liberty Surf, UK based LineOne, Tiny Online and Gateway, Germany based SurfEU, and The Netherlands based World Online. With these acquisitions, Tiscali became the second largest service provider in Europe in terms of the active users (4.9 million) with the largest geographical footprint in Europe. The largest of these acquisitions was the LineOne acquisition in the UK in the summer of 2001, which gave Tiscali 1.85 million registered subscribers. Tiscali merged its three UK ISPs to form Tiscali UK as an independent subsidiary operation. With the emergence of broadband in 2002, Tiscali management began to focus on making a transition from dial-up to broadband services. The firm rapidly moved to become the low-cost broadband provider for B2C

and B2B markets, pricing its services significantly lower than offered by much bigger competitors such as BT or AOL.

In January 2005, a new government policy allowed operators like Tiscali to install their own hardware on BT exchanges, thus connecting directly to the consumer's phone line via BT owned local loop – the copper lines running from exchange centers to households and businesses. This directly benefited ISPs like Tiscali who could bundle Broadband and voice products, and enter the new area of "double-play" services, which offered customers the convenience of a single Internet and telephone provider. In August 2006, Tiscali entered the "Triple-Play" market when it acquired HomeChoice, a company that offered a bundled broadband and video-on-demand service to customers. By the end of 2008, Tiscali was the 4th largest ISP in the UK with the customer base of 1.9 million and a market share of 12% after BT, Virgin Media and The Carphone Warehouse.

Evolution of Offshoring in Tiscali

The emergence and subsequent growth of offshoring in Tiscali occurred against the background of Tiscali's evolution as an organization. Tiscali first looked to offshoring to reduce costs in support activities such as routine customer queries. Subsequently, Tiscali expanded the use of offshoring to include core operations such as developing software applications, and development of a new billing system for B2B customers. For the most part, offshoring took place in vendor-operated dedicated facilities in India, usually on a fee-for-service basis. In several cases, for instance, during the early development phase of billing platform, offshoring operated in reverse, with vendors sending personnel over to the London for project work on the basis of billable hours plus the cost of software.

As a double, and later triple-play services provider, Tiscali operated in a heavily technology driven business. To meet the demands of this environment Tiscali created a separate technology department (TD). TD was responsible for a diverse set of activities, like order management, service

assurance and management reporting activities. In order to carry out these activities, TD was organized into various small teams, with each team being responsible for a different set of activities. The teams were required to communicate effectively with different Tiscali departments to make sure that they provide and receive necessary inputs quickly and efficiently to carry out various activities (figure 1). For instance, customer operations support (COPS) was responsible for multiple activities such as: providing telephone based customer support, managing customer orders, customer billing & resolving invoice issues, payment collection, credit control, customer retention and service upgrade management, customer technical issues escalation and resolution. It relied on TD for providing tools such as training modules for call centre service agents, and diagnostic tools for customer support agents dealing with technical queries.

Insert figure 1

Any interruption in TD activities affected performance of the other department's activities, and likewise problems with other departments had a knock on effect on TD activities (see table 1 for description of activities performed by TD and dependence of activities performed by other departments on TD). As Tiscali moved from being a pure dial-up ISP firm to broadband and later to double and triple-play provider, it progressively increased its reliance on offshoring. The evolution of offshoring in Tiscali corresponds to a move from low-value to high-value added of this strategy (see table 2 for a summary of the evolution of offshoring). This evolution falls into the following three distinct time phases:

Phase 1: Business consolidation Period, April 2001–October 2002.

Phase 2: Broadband & Voice Period, November 2002–July 2006.

Phase 3: Voice, Video & Data "Triple-play" Period, August 2006–onwards.

Phase 1: Tiscali Evolution (April 2001 – October 2002)

For the first two years following the acquisitions of the three ISPs, Tiscali's UK focus was business consolidation and company reorganization. Cost reduction and rationalization took centre stage. Tiscali cut staff and eliminated overlapping of roles and improved on operating cost efficiency. Re-organization also led to the formation of small teams charged respectively with marketing, sales, technology, and customer support responsibilities, allowing Tiscali to keep the interactions between different teams on relatively informal basis. Thus, whereas other ISPs were preoccupied with creating and managing internal processes, Tiscali could focus management time on achieving business targets.

Key to achieving these targets was consolidation of the systems and platforms inherited from acquisitions into a single integrated infrastructure. The integrated infrastructure produced substantial operating cost reduction, higher network utilization, lesser network support and service management activities, etc. The new capabilities allowed Tiscali to launch various flavors of narrowband service packages such as pay as you go and the un-metered anytime Internet access, suited for different needs of the customers. But as Tiscali was expanding its offerings and enjoying sales growth it was also experiencing rapid rise in the costs of providing technical support for new and existing customers. Previously Tiscali expensed this support out of its own resources. But as the customer base increased it began exploring the option of charging customers for technical support with the aim of transforming technical support from a cost centre to a fully self-sustaining unit. It was at this juncture that offshoring became an increasingly attractive option.

Offshoring Customer Services (March 2002-February 2008)

Initially, Tiscali sought a revenue sharing arrangement with an onshore call service operator that would provide technical support to Tiscali's customers. However, in the UK, none of the call centers were prepared to work on a revenue sharing basis. This led Tiscali to look to offshore call

centers in India. For technical support, Tiscali selected two different offshore vendors-IBM Daksh and Codec in India based on their capability and pricing. IBM Daksh had considerable capabilities in dealing with routine customer service queries, while Codec in Bangalore had proven expertise in running technical help desk facilities. When it came to selecting which activities should be offshored, Tiscali management decided to focus on routine queries. With this in mind, order taking, status queries, and billing and product upgrades queries were routed to IBM Daksh in Delhi and Pune. Service connection queries and services troubleshooting activities like running diagnostics test and escalating complaints to the technical team for resolutions were on the other hand routed to Codec call centre in Bangalore.

Tiscali was not involved in recruitment or training of customer service agents, seeing this as offshore vendor's responsibility. Instead, Tiscali confined its role to providing agents with 'scripted flow charts' that used codified responses to set range of customer queries that in principle should enable agents to carry out troubleshooting in each activity. This solution, however, ran into difficulties when soon after offshoring Tiscali managers realized that staff at the India-based call centre and customers had difficulties understanding each other. This was largely because of different accents and intonation. Resolving customer queries led to delays that were costly for customers since they were charged for the service on the basis of call duration. Inevitably, customer complaints about the quality and cost of Tiscali's support services followed.

The head of customer operations team sought to address this problem by liaising more closely with the technical department. A task force made up of a two person team from customer operations and two members from technical department was set up to bridge the gap between the offshoring vendor and Tiscali's operations. But their main effort was confined primarily to preparing training manuals for offshore staff, and developing off-the-shelf packages that target well understood problems where assistance could be easily routinized.

These difficulties called into question Tiscali's approach to offshoring. Of particular concern to Tiscali's top management was the potentially negative impact of offshoring on high revenue-generating B2B customers. During the monthly Tiscali management board meeting in October 2007, executives discussed the operational challenges emerging as a result of growth in B2B and residential customer numbers. There was general consensus that increasing numbers in both customer segment, and the cost of supporting B2B customers from UK, was putting huge pressure on operating margins. Tiscali managers reviewed offshoring options closer to home market to relieve these pressures. Following this discussion, in January 2008 Tiscali formed a three-year, sixty-six million pounds agreement with a Transcom-a European vendor. Transcom was to provide customer operations activities, such as billing support and collection, aimed at Tiscali's B2B customer base from Lithuania**.** Tiscali managers were also planning to enhance the call centre portal to facilitate offshore retention activities targeted at residential customer base to an existing facility in India.

Phase 2: Tiscali Evolution (November 2002 – July 2006)

Broadband Services Development (October 2002 – March 2003)

In the last quarter of 2002, Tiscali entered the broadband market by launching broadband services based on BT Wholesale ADSL offerings. Managers recognized that as long as BT was the sole network provider, and was offering identical access to all market entrants, competing on service differentiation was not feasible. Competition among broadband providers was increasingly focusing on price, which in turn meant maintaining a low-cost position. To sustain a low-cost positioning, Tiscali needed to lower the cost of developing new application services for broadband users. This led managers to search for offshore providers, primarily in India, that would enable Tiscali to lower the costs of development and speed up the delivery of its services. Ultimately, Tiscali selected Wipro, an Indian based provider, because of its experience within telecommunication sector.

The first project involved Wipro developing the broadband applications tools like broadband order management and provisioning system that are crucial for enabling upgrade of the narrowband to broadband services for both B2B and B2C customers. Tiscali formed a small team in TD consisting of 4 people from core technical team and 6 people from Wipro. Wipro team had 5 members based offshore and 1 member onsite responsible for coordination with Tiscali in-house team to select application modules to send offshore for development or testing. The team was successful in completing the project within 3 months. That allowed Tiscali to launch broadband services more quickly than other service providers.

In the first three months after the launch Tiscali was getting 2000 new broadband orders everyday. As a result, Tiscali's brand awareness rose from 4% in 2001 to 80%. But the increasing demand forced Tiscali's finance department to allocate more funds to TD to scale up infrastructure to support high volumes of orders. To accommodate increasing broadband orders, COPS team ramped up its offshore CC operations. Within Tiscali the successful launch of the project vindicated the use of offshore providers, but other managers cautioned that success was not due simply to offshoring, but also careful requirement specifications and effective coordination between onsite and offshore units.

B2B Billing System Development (January 2003 – December 2004)

Having secured a reliable offshore provider for development of complex applications led Tiscali managers to ramp up its entry into the B2B market. In principle, this market generates higher average revenue per user (ARPU) than residential customers. More significantly, it represents a more stable income stream because as a rule customers are less willing to suffer the disruption that switching to other providers entails.

The key to this market, however, was superior service. Under the plan put forward, Tiscali would be the first to offer B2B customers the opportunity to bundle together different products and services. To support this offering, TD needed to develop a new billing system labeled in Tiscali as "Billing Operations & Support Environment (BOSE)". The system would enable Tiscali to bill B2B customers for various services like dial-up, non-geographic numbers, Broadband, Co-Location, and Domain Name Services. The development team also needed to migrate existing customers from the old billing system to new billing system, and ensure that management information system worked with the new billing system.

Tiscali turned to Wipro to deliver the project in six months. Wipro team had been working for Tiscali for just over two months, and had delivered the broadband services project budget well ahead of the schedule. Furthermore, Wipro account manager had developed a good relationship with the CTO, and gave assurances that Wipro would deliver again. The project kicked off in January 2003 with a budget estimate of £300k, and expected delivery period of 6 months. To carry out the development work, Tiscali asked Wipro to form an onshore team including two billing specialists with background in telecommunications that were to work as freelance contractors along with the Wipro team.

The project was central to the success of Tiscali in this crucial market segment, and Tiscali managers decided Wipro team needed to be based at Tiscali's premises. The decision to base the development team onshore was also driven by the fact that as part of the system development, Wipro team was required to interact with various departments to collect information to establish requirements and subsequent application design. These departments were marketing and sales (with pricing team to understand pricing and discounting features, promotions, etc), billing team within COPS (to understand customer, pricing configuration requirement, invoicing, credits, etc), service provisioning department (to understand services and their features configurations requirement), TD team (to understand call detail record formats, call mediation and rating logic which breaks call

detail records into billable format). The finance team was involved in budget allocation and financial monitoring for the project. In all, the project team-size was initially set to 9 development members (all onsite) and 1 project manager to co-ordinate activities between different departments.

Within few months of initiation the project ran into serious difficulties. Tiscali's managers concluded that they had placed excessive confidence in Wipro's management competencies. Wipro was blamed for constantly rotating the key individuals in the project team from offshore without ensuring the necessary knowledge transfer. In their defense, Wipro's managers responded that Tiscali had signed up Wipro on an agreed rate, and not for overseeing project management. They also point out that Tiscali failure to provide adequate internal project progress monitoring compounded the problem. More generally, Wipro argued that Tiscali's push to expand its product range led the firm to change project requirements which ultimately had negative consequences for their ability to deliver the project on budget and on time.

It was becoming clear to both Wipro's and Tiscali's managers that expecting the project to deliver billing support for all the services that Tiscali was developing and launching was far too ambitious. Tiscali's managers believed that it was Wipro's responsibility to understand and implement the complex logic of billing various services. Since there was no well-defined project scope, the request for additional new features and services from various departments such as marketing and sales and TD resulted in an ever-increasing feature list. This combined with lack of planned phased deliveries of the software led to an open-ended project. Furthermore, error in the data migration from legacy system to the new system resulted in wrong bills being generated and sent to customers. Although Wipro was responsible for the problem, customer complaints were directed at billing support team within the COPS team.

Facing considerable pressure from the board, Tiscali's CTO gave Wipro room to scale up resources needed to deliver the project. As a result, Wipro's onsite team grew to more than 25

members. Projects costs ballooned to more than £100,000 per month. Delivery dates, however, were still being postponed. This had a serious knock-on effect on other departments, such as Marketing and Sales, which also had to postpone their plans and activities in the B2B customer segment. At a board meeting in December 2003, the head of finance expressed concern at the mounting costs, pointing out that the total software development costs had crossed £1.3 million, with BOSE project development alone costing in excess of £800k. The finance department openly questioned the original decision, suggesting that TD could have bought cheaper "off-the-shelf" billing product from the market. The finance department began to impose more stringent controls on the project, instructing the TD to reduce Wipro project headcount.

The sales department had been waiting for rollout of the billing system so that they could offer customers discounts, promotions, and more attractive service packages. Unfortunately, with the upsurge of B2B broadband orders, they could not wait any longer for development activity on the billing system to finish. Managers in the sales department instead decided to hire another team of external consultants to develop separate ADSL billing system specifically designed to bill the customers for broadband services. Though this alternate system was limited in terms of features compared to what Wipro envisaged, it enabled the sales team to move forward with sales of broadband services to its customers.

The TD was coming under tremendous pressure to put its house in order. Tiscali's CTO moved to dismiss one of the external billing consultants and the Wipro project manager and placed internal project manager on the project. Tiscali also asked Wipro to shift 80% of the work to its offshore facility to cut on the cost of development. Wipro onsite team was reduced to 6 members' onsite, and 15 members were now working at its Bangalore facility. A weekly teleconference mechanism was set up where teams from sales, billing support team, and development team would sit together and discuss weekly progress of the project. With total cost of Wipro resources on this project reaching around £1 million, Tiscali started negotiating fresh billing rates with Wipro. Wipro

refused to lower these to the level stipulated by Tiscali managers, resulting in the decline of Wipro onsite resources at Tiscali. Wipro was seen as a liability by Tiscali managers, and in March 2004, Tiscali decided to replace Wipro with Mahindra British Telecommunications (MBT). MBT offered Tiscali billing rates that were 25% lower than Wipro. MBT was also known to have extensive expertise in telecommunications, in part because of its long-standing strategic partnership with BT.

Within six weeks MBT took over from Wipro and started working on BOSE. MBT also continued with Tiscali's preferred hybrid model of outsourcing, with 80% of resources working offshore and 20% deployed onsite. With MBT assuming total ownership of BOSE, it also started to work with the B2B sales department with a view to delivering further enhancements in the system. By January 2005, with the active participation of billing team (in highlighting the billing related issues and give suggestion to fix them), the sales team (in cutting down complex sets of billing rules) and the finance team (by providing adequate funds), BOSE was finally rolled out successfully.

Application Support (May 2004 – February 2008)

By mid 2004, with aggressive pricing strategy in place, Tiscali was growing rapidly, signing up 150,000 B2C broadband customers every quarter. Growing customer numbers in turn posed a serious challenge for COPS, which in turn put pressure on the Marketing and Sales departments. The latter departments were especially concerned about damage to Tiscali brand caused by poor service support. With TD recovering from budget overrun from BOSE project, and MBT gaining internal reputation for leading the turnaround, Tiscali approached MBT to lower the cost of application support for a variety of activities. The proposal was to offshore activities such as enhancing software applications to reflect promotions and aggressive discount schemes; developing software documentation, and troubleshooting problems reported by B2C customers with use of

services such as web mail, website hosting. TD was central to the success of this initiative, as it would provide training to kick-start the project and subsequently feed the technical design of the applications to the offshore team; and document and report any technical bugs on routine basis. MBT proposed the formation of a separate offshore application support team of 10 people in Bangalore with one project manager based onsite in the London office to co-ordinate the activities. Tiscali sent 4 members from its in-house core technology team to Bangalore to lead the training of offshore team.

The offshore team was expected to interact with COPS, marketing and pricing teams, and internal TD. For instance, COPS managers relied on the offshore team for troubleshooting problems reported by B2C customers. Marketing and Sales functions also relied on the offshore team for activities such as price setting, and support for the automated self-service selling environment for B2C and B2B customers. The latter involved frequently updating the various options that allowed customers to create a bespoke package. Tiscali managers saw the offshore team as an extension of internal TD, and expected quick turnarounds. As the burden on the application support team increased, its ability to meet the requirements of other departments became increasingly constrained. MBT onsite project manager argued for a larger team as a solution to address the productivity issues, leading Tiscali to increase the offshore team size to 30.

Performance issues persisted however. The dependence of sales, COPS and TD on the offshore application team was having an adverse affect on the Tiscali's operations. For instance, the sales team often found itself waiting for offshore application team to integrate new service options, or add new promotional offers. Failure to quickly add promotions, or even worse, getting them wrong, led to customer complaints which in turn added to pressure on COPS. COPS team was also dependent on offshore team for range of activities such as, upgrading software tools and documentation used by call centre staff to resolve customer queries, providing reports on customer orders and complaints. Often these requirements were fed to the MBT onsite project manager, but

in many instances individual managers bypassed this manager, placing requests directly with the individual offshore team members in order to speed up delivery. Managers from TD, in turn, complained that offshore team frequently failed to document the enhancements it made to the applications, or resolve issues according to the priority assigned.

In an industry where customers could opt out of the standard 12-month contract if adequate service level is not maintained, the growing volume of customer complaints was a cause of increasing concern to Tiscali's top management. Accordingly, TD started monitoring the extent of the problem by closely keeping tabs on the monthly figures of problem resolutions carried out by the application support. It also fired the MBT onsite offshore manager and promoted the most energetic member of the offshore team as onsite offshore manager. Tiscali also bought into MBT's recommendation to introduce a parallel application support team onsite with a mandate to respond to urgent requests from sales and COPS team. Reflecting on his experience, the MBT account manager pointed:

> *"When Tiscali engaged us, we found there was no overarching structure in place to understand how technology interfaced with their business processes. We had had success with the billing systems development project, and that had given us some confidence that we understood the company worked. I think, every time complications occurred during the application development, we had to do lot of fire-fighting at out end to understand the source and impact of the problem across the company, from COPS to TD to our development team."*

Phase 3: Tiscali Evolution (August 2006 – February 2008)

In the early part of 2006, the UK market was seeing the emergence of triple-play service providers offering a combination of voice, data and digital television. Tiscali wanted to deliver triple-play

services rapidly to increase average revenue per customer. In August 2006, Tiscali acquired Home Choice, a video on demand services provider. Tiscali managers recognized that the company faced the challenge efficiently integrating the systems, processes and people of both the organization. The challenge was particularly acute for TD. As Tiscali's CTO recounted:

> *"Towards the end of 2006, we endeavored to integrate Tiscali and Home Choice. The integration process progressed very slowly and took much longer than we expected. It disrupted normal functioning of the TD. We hired 1/3 staff from HomeChoice. Unlike us, TD in HomeChoice was very structured and process oriented which prompted cultural shift in the TD".*

During the same period OFCOM, the regulator for the UK communications industries, pushed deregulation by opening access to BT infrastructure. As part of what came to be known Metallic Path Facility policy (MPF), OFCOM required BT to give all voice and data service providers direct access of copper lines from customer premise to BT exchange. Above all, the MPF platform allowed Tiscali the opportunity to move ahead with triple-play offerings. But doing so required a major revamping of Tiscali's infrastructure and management processes. In the first quarter of 2007, Tiscali hired Logica CMG to conduct the review of TD's performance. The review suggested that TD needed to change the whole service delivery model to a "waterfall" model of software development. This required Tiscali and its offshore partner to follow sequential software development process from initial requirement specification to design, to implementation, integration, validation, and then installation and subsequent maintenance. While discussing the revamp of TD's operation, the management also re-evaluated Tiscali's offshoring strategy. The main question confronting the management was whether to continue with MBT or seek new offshoring partner. The CTO called a meeting of all department managers to review the matter. There was general consensus that though Tiscali had experienced delays in the application

development projects managed by MBT, finding a new partner required a lengthy evaluation exercise that would be best to avoid.

In November 2006, therefore, Tiscali awarded MBT the MPF platform rollout project, which was critical to Tiscali's success in the triple-play market. MBT carried out all key development activities at its offshore facility, but in an attempt to conform to the new process oriented approach adopted by TD, it expected Tiscali to carry out testing onshore. However, no proper test environment existed onshore, and TD scrambled to conduct testing. The new process orientation, however, greatly hampered these efforts. Under pressure to implement this new orientation, TD found it difficult to contain development costs and meet schedules. The project, which was expected to last no more than three months, took eight months to be completed.

The delay in the project put Tiscali in a difficult strategic position. The company not only had to continue serving existing customers using the higher cost BT platform instead of the much cheaper MPF platform, but it also had to sign new customers at prices that were lower than originally anticipated. The impact on Tiscali's low cost strategy was significant, and was felt by other areas within the company. The finance department was forced to revise initial return on investment forecast used for borrowing funds to meet MPF equipment and installation costs. Higher than expected operating costs were also curtailing the revenue forecasts of the sales department. Even more serious was the impact on the ability of the sales department to offer customers the full range of bundled services.

The delay in MPF project also adversely impacted a related IPTV platform integration project launched soon after HomeChoice acquisition. The project involved transferring all of HomeChoice's 45,000 customers to Tiscali's MPF platform. In practice, this meant developing an interface between Tiscali and HomeChoice's platform that allowed for delivery of on-demand digital television. The integration was estimated to take 6 months, and was to be managed onshore

with in-house resources. The subsequent yearlong delay was a major strategic setback for Tiscali. It not only meant that Tiscali had forfeited the opportunity to reposition itself early as triple-play provider, but was once again forced to heavily discount its prices in order to retain market share. Unfortunately, as a late mover Tiscali soon discovered the limits of price discounting in a market where bundling triple-play services is competitively crucial. By October 2007, Tiscali had lost 15,000 customers. In retrospect, Tiscali managers placed much of the blame on a combination of decisions-shifting development to a process-oriented approach while at the same time increasing reliance on offshore vendors to deliver projects on time and on budget.

Tiscali CEO pointed that managers also acknowledged that offshoring crucial projects might require greater control in future projects:

> *"There is internal consensus that Tiscali cannot totally depend on offshore partner for developing critical systems and design. This should remain with Tiscali core staff onshore as they understand the systems better, and therefore can deliver the design better and quicker. We can use MBT to assist them with a mix of offshore and onshore resources as and when required."*

DISCUSSION

The configuration view of strategy holds that advantage is gained by combining value creating activities into a configuration that fits the environment, and then increasing the fit by progressively reinforcing the linkages that couple the activities to each other. Research suggests that configurations lead to sustainable advantage when they are designed with two principles in mind. *First*, to ensure the best utilization of resources the configuration should comprise of high, rather than low, value-creating activities. *Second*, to improve fit it is necessary for the value-creating activities to be as tightly coupled as possible.

Offshoring that involves low-value added activities, and is expected to remain loosely coupled to the configuration is consistent with these design principles. It is when organizations turn to offshoring of high value-creating activities that require tight coupling to the configuration that they run into difficulties. The Tiscali case illustrates how one organization struggles with this problem. Tiscali began life as a set of loosely coupled units and activities. As competition increased the firm went through a period of consolidation and simplification, very much along the lines described by Miller (1993). As part of the process, Tiscali began to examine the possibility of outsourcing value creating activities that were peripheral to its core activities. This eventually led to offshoring of call centers which notwithstanding the initial difficulties produced results that encouraged Tiscali to believe that offshoring can be a permanent solution to a perennial strategic problem: How do you create a low cost position in an industry where your competitors are much larger and better resourced?

When Tiscali considered moving to double and then triple-play provider, offshoring once again seemed as the obvious solution to the rising costs involved in expanding the volume and diversity of service offerings. Normally, Tiscali would grow its TD department to meet these needs. But in these instances doing so would have required resource investment at levels that would have eroded Tiscali's low cost position to the point where the company would eventually have no choice but to exit from UK market. To avoid this eventuality Tiscali turned again to Offshoring. But unlike the first foray into offshoring customer support, which succeeded notwithstanding some initial problems, this time Tiscali was offshoring high value-creating activities such as broadband services, B2B Billing platform, and MPF platform role out, that require close mutual coordination with the rest of the organizational configuration. Not unexpectedly problems arose that could be traced directly to linking a crucial value creating activity to a counterpart that was not entirely under the control of Tiscali. Specifically, Tiscali management found that negotiating agreements and developing inter-organizational structures to coordinate high value-creating offshoring activities with the configuration are more difficult than originally

anticipated. Tiscali's response was to constantly adjust and modify offshoring linkages, moving staff back and forth, increasing budgets when time was of the essence, and finally putting pressure on Wipro to deliver. None of these yielded the desired results. Faced with escalating costs and late delivery of crucial systems, Tiscali was forced to bring more activities in-house, and ultimately turn to MBT as a new offshoring provider.

To some extent MBT was able to remedy the problems that surfaced during the relationship with Wipro, but it could not address Tiscali's basic problem of effectively coupling onshore and offshore activities. Maintaining a loosely coupled configuration by relying on network of firms has its own advantages in promoting innovation in a fast-moving environment (Brusoni and Prencipe, 2006). The key success factor, however, is the presence of a unit that acts as the hub to manage the configuration. Part of the problem, as Tiscali eventually recognized, was that the TD, the core of its value-creating configuration, was poorly equipped to work with offshoring activities. At the end of 2006 the company therefore hired Logica CMG to examine the operations of its TD. But unfortunately for Tiscali, while Logica's recommendations were consistent with best practice for managing projects internally onshore, they were ill-suited for projects that depended on offshoring. Not surprisingly, when Tiscali tried to implement Logica's recommendations they found that it made matters worse rather than better.

Implications for Practice

From a configuration perspective the difficulties that Tiscali encountered will not come as a surprise to managers with extensive offshoring experience. Offshoring requires decoupling of these activities from a configuration that have grown over time, and hence are deeply embedded in managerial habits and organizational culture. The decoupling is therefore bound to be disruptive in most instances. The challenge facing managers therefore is ensuring that the value creating potential of the activity transferred is maintained, if not enhanced. This depends on gauging

beforehand the extent to which the activity is tightly coupled to the configuration, and the risks that a temporary loss of value creation by the activity poses to the organization.

Research suggests that attaining this goal also depends on the nature of the activity, in particular the activity's knowledge base. Szulanski (2006) suggests that "knowledge stickiness", or the degree to which knowledge is codified and embedded in an activity or location constitutes a barrier to effective mobility. Easily codified activities in principle can be offshored to a new location without significant loss of its value creating potential. By contrast, offshoring activities that are based on difficult to codify knowledge, i.e. are more "sticky", require more care and preparation to prevent erosion of their value creating potential.

Paying attention to "knowledge stickiness" at the individual activity level, however, must go hand-in-hand with attention to the interconnected nature of information flows among different activities. Information from low value added activities often feeds into high value added activities, which are tightly coupled, and vice versa. Reducing the negative impact of offshoring therefore calls not only for greater coordination and information sharing, but also a well-designed strategy to minimize post offshoring adjustments. In this sense, our findings here reinforce observations by recent research carried on globally distributed work by Kumar et al. (2009). Kumar et al. (2009) point out that at an operational level, firms need to understand interdependencies across offshored work to reduce the informational stickiness that emerges when transferring informational and knowledge intensive work to internal or external service provides located offshore. This challenge is particularly accentuated when the knowledge transfer is required at global level, or across work units in the case of offshoring. Managers must therefore take into account that elements in the core configuration are linked in complicated webs of relations with each other and with peripheral elements. Managing this interdependence requires firms to understand the routines attached to the individual and the coordinated web of activities through a connected set of processes.

Limitations and Extensions

Our research carries limitations. First, as with all case studies and convenience sampling, our findings are not statistically generalizable to the whole population (Yin, 2009). Second limitation is the response bias of only those individuals who were interested in participating in the research. These biases prevent us from observing the full range of values on outcome variables; however the methodology is suitable for our purpose of examining the impact of offshoring of technology enabled activities on a configuration where such activities are at the centre of creating tight or loose coupling. We only examined the impact of offshoring within a firm, which relied on technology department. Other firms may find other activities such as research and development or marketing at the centre of their firm's activity configuration, which are also being increasingly offshored (Kenney, Massini and Murtha, 2009). Future studies could examine the interdependence between such value chain activities and impact of offshoring on the activity configuration within different types of firms. Another path could be to collect activity-level, longitudinal data on the how the activity coupling evolves from being tight to loose or vice versa, and the implications of such evolution at the configuration level. Activity coupling is likely to evolve as the firm pursues growth in international markets by setting up subsidiaries, shifting focus by retreating from one market to to another market or by setting partnership and alliances to develop new competencies or enter new product markets.

CONCLUSION

The cost, innovation, and flexibility advantages of offshoring were readily apparent to firms that first pursued this strategy. The problems they often create took a while longer to surface. Some of these problems that offshoring firms confronted arose from having to work with people and organizations that have different traditions and ways of doing business. But others are intrinsic to the challenge of trying to relocate high value-creating activities, while the same time ensuring that

they remain tightly coupled to the key activities that make up the organizational configuration. Given the difficulties that tend to emerge when organizations offshore high value-creating activities, the question therefore arises whether offshoring is a transitional strategy that organizations use to move from one configuration to another, or a permanent addition to the strategic repertoire of firms in the 21st century. The strategic case for offshoring high value-creating activities is strong. Offshoring of high value-creating activities has allowed firms not only to devise novel methods that address current challenges of their business environments, but also to develop configurations that open new strategic opportunities. Based on the analysis in this paper there is a high likelihood that offshoring of high value added activities will be incorporated into the strategic repertoire of organizations in the 21st century.

This conclusion begs the question facing most organizations that look to offshoring of high value-creating activities as key to strategic advantage: How do you tightly couple the offshored activity to your core value-creating activities without damaging your configuration, or nullifying the advantages that offshoring is expected to deliver? Tiscali's experience suggests that moving to offshoring without considering this issue carefully may yield the worse of all possible worlds: a badly disrupted configuration and poorly functioning offshoring. At the same time, the case also suggests that even careful analysis before offshoring may not reveal all the potential problems that arise. The process of offshoring is in the final analysis of learning process. Firms have to design the offshoring before embarking on the move, but they must stand ready to experiment and adjust the linkages that connect offshoring activities with the core configurations.

Appendix

Figure 1: Tiscali TD dependent configuration

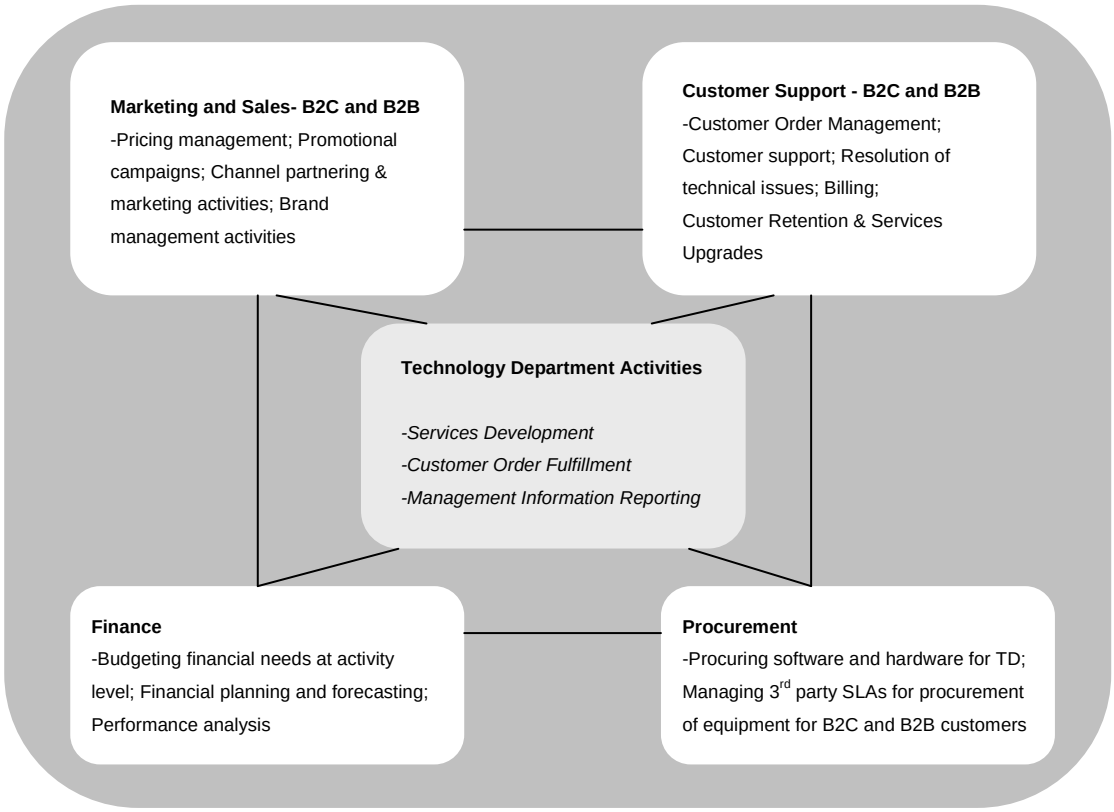

Table 1 TD Activities and interaction with other activities within Tiscali's departments

Technology Department (TD) Activities	Description and Interaction
Services Development Activities	**Activities related to services innovation and facilitating diversified telecom services.** As part of these activities, TD interacted with different departments to conceptualize, design, develop and launch new services in the market. The ability to design flexible, scalable, automated solution and ability to accommodate new technologies and services, backup facilities added value to the service development activities, e.g. it managed call centre portal which it developed for usage by more than 1500 offshore customer service agents.
Customer Order Fulfillment Activities	**Activities ensuring fulfillment of customer orders**. TD was responsible for activities such as providing automated platform for customer order fulfillment. The other related activities include working with service provisioning team to decide on the mode (like online portal, telephone) and facilities (like service selection, service pricing, discount schemes) to the customer during registration process; working with billing departments to decide on the billing facilities (like invoicing, payment collection method, bad debt management)
Management Information Systems Activities	**Activities involved Key Performance Indicator (KPI) reports, which facilitated resourcing, and performance monitoring.** These activities included working closely with different departments to understand their daily/weekly/ monthly reporting requirements. As part of these activities it captured information on new customer registrations, service terminations, revenue assurance and billing collections, which were fed into activities managed by departments like finance, customer operations and marketing.
Services Management & System Integration Activities	**Activities that ensured that all operations are up and running efficiently.** These were critical set of activities to meet service level agreements (SLAs), and involved providing tools to customer operations so that they could detect and diagnose any problem in customer service. It also provided a mechanism of escalating the issues to technical team for further technical support.
Other Value Chain Activities	
Finance Department Value Adding Activities	**Activities related to arranging, controlling, and budgeting.** The finance activities depended on TD to understand the profit margins on different services and to decide on technical activities budget for projects development and operations management. The other activities included getting several pieces of information from TD like monthly/yearly payment collection, bad debts, billing settlement information, so that finance department could run forecasting models.
Marketing & Sales Value Adding Activities	**Activities included brand management, managing advertising campaign, pricing management, and promotions management.** The efficiency of marketing and sales activities depended on the efficiency of TD to roll out quality services quickly so that marketing and sales could target new customer segments and run promotions to retain existing customers.
Customer Support Operations Value Adding Activities	**Activities involved customer order management, call centre customer support, technical support, customer billing & invoicing issue resolution, payment collection, credit control, customer retention and service upgrade management.** There was dependence on TD for many of its ad-hoc requirements like monthly technical issues resolution reports. The COPS needed quick turnaround from TD to resolve high-level technical issues, provide training, and develop user-manuals to increase customer satisfaction.
Procurement Value Adding Activities	**Activities involved cost effective purchasing of necessary software and hardware for TD**. In order to carry out these activities it needed to work closely with TD to understand requirements for the software and hardware, and then negotiate with the 3rd party providers to procure the necessary items at competitive prices.

TABLE 2 Evolution of Offshoring within Tiscali and the Impact on Tiscali Configuration

Period	Offshored Activities	Interactions with other departmental activities	Key Issues	Offshoring Impact
PHASE 1 March 2002-Current B2C Call Centre (CC) Offshored to IBM Daksh in Delhi, Pune and Codec Bangalore	-Customer service related to ordering/ upgrading/ terminating the services -Manage query handling on billing/ service status/ network speed/ customer complaints/ problem escalations	**COPS – TD linkages** - To gather requirements from COPS for supporting CC operations - To arrange training and user manuals for CC staff - To get KPIs reports regarding new customers joining/ leaving/ upgrades/ complaints, etc. **Marketing and Sales (Pricing) – TD linkages** - Configure products and services on the CC portal - Configure promotions and discounts on the CC portal	- CCs staff lack knowledge of products offered by Tiscali - Customer complaints leads to drop in Tiscali managements confidence in quality of service from India based CCs - Tiscali decides not to offshore B2B and B2C retention call centre - High focus on supporting and providing training to offshore CC employees	- Enables Tiscali to have a low-cost self-sustaining B2C call centre in India - Tiscali was able to extend use of CC for other products like ADSL and residential telephone services
PHASE 2 December 2002 Broadband Applications Development to Wipro	-Application for Broadband Services provisioning on BT network -Development of B2B Broadband Order Management Portal	**Marketing and Sales (Pricing) – Offshore vendor linkages** - Gather information to configure products and services on the CC portal. - Configure promotions and discounts on the CC portal. **TD - Offshore vendor** -Gather requirements on features and functionality of the broadband services and portal.	-Effective setup of team comprising of offshore-onsite resources -Good co-ordination between Wipro onsite and offshore team -Effective, frequent and informal coordination between the offshore vendor team and in-house TD	-Enabled launch of competitively priced broadband services -Broadband products huge success in the market. Tiscali brand awareness increased manifold.
January 2003 B2B Billing System	Integrated Billing System to bill B2B customers	**Marketing and Sales (Pricing) – Offshore Vendor Linkages** - Gather information to configure products and services on the Tiscali B2B order management portal - Gather information to develop features enabling setting pricing through BOSE portal; setting volume discounts, term discounts **Billing – Offshore Vendor linkages** - Understand various types of customer services, pricing and invoicing, processing credits. -Understanding recurring billing issues faced by customers **TD - Offshore vendor** Understand call detail record formats and rating logic to break call detail records into billable format	- Severe delay in delivery of the billing system - Constantly changing offshore team members - Lack of full view of the ongoing development - Lack of scoping project requirements effectively often escalated - Ambitious project of having a versatile billing system. - Fee for service contract where offshore vendor is paid on time and material basis leads to internal anxiety as project is delayed	- Cost Overrun of more than £1.5 million - Sales team not able to launch versatile billing system - Discussion to scrap project - Reorganization of Development team - Replacement of project managers - Sales team hires consultants to deploy alterative billing system - Tiscali looks for alternative partner
May 2004-Current Technical application support team	Application Support	**COPS – Offshore Vendor team linkages** - Managing high level complaints - Gather requirements for reports - Fixing customer data/information - Configuring products and services on COPS portal **Marketing and Sales – Offshore Vendor team linkages** - Configuring channel partners - Configure Products on service systems - Configuring Pricing. **TD – Offshore Vendor team**	- Lack of process in managing offshore resources and requirements - In-house team pre-occupied with ongoing projects. Often declines to support the App Support Team - Lack of process to manage knowledge transition. - Delay in service due to lack of documents and codified knowledge	- Replacement of project manager - Monthly tracking introduced - Manage time difference by enabling offshore team members to support the operation during UK time

		linkages - Understanding technical design from tech team - Provide training to offshore team as required	- Transfer of technical issues back and forth. - Focus on development of services than training	
PHASE 3 December 2006-January 2008 IPTV Integration	Activities enabling systems to provide triple-play services	**Marketing and Sales Team – Offshore vendor linkages** - To provide information on new products - To provide pricing information to be configured on the system **HomeChoice Tech – Offshore vendor linkages** - To provide interface to enable use of legacy systems - To provide products and services details to enable migration of customers on Tiscali platform **COPS – Offshore vendor linkages** - Enabling IPTV related customer support features on call centre portal to have an integrated service.	- Delay in delivery of MPF platform - Multiple bureaucratic layers between HomeChoice and Tiscali - Multiple processes followed to integrate systems and develop new services. - Focus on implementing full software development cycle methodology leading to increase in the time taken to implement.	- Delays in delivery leads to delay in market entry and loss of market share - Decides to be less process oriented

TD=Technology Department; COPS: Customer Service Operations; CC: Call Centre.

IPTV: Internet Protocol Television is a system where using Internet Protocol delivers a digital television service over a network infrastructure.

MPF: Metallic Path Facility gives private service providers exclusive use of residential telephone line.

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