

The Allure Of Offshore Outsourcing - Is It Worth It?

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By Dr. Wendell Jones

The allure of offshore outsourcing is just too attractive for many companies to ignore. Organizations are drawn by cost reductions and the promise of more staffing flexibility and increased business agility. However, the best of planning and the signing of a sound contract do not guarantee offshoring success. Success depends on effective management structures, processes and dedicated relationship managers who can manage and lead across organizational boundaries.

The relationship with an offshore outsourcing supplier requires discipline on the one hand and flexibility and cooperation on the other. There are special considerations in managing offshore outsourcing.

Special Offshore Considerations

One special consideration is the project and program issues that are magnified as the work moves outward from on-site to nearshore and offshore. The most significant project issues are communications between the individuals and teams, team building and relationship management, project and program management, and meeting performance commitments. Interfaces and handoffs between organizations are particular points of difficulty and risk. So while establishing and enforcing the use of strong project/program management and supporting tools and techniques with common standards and metrics is difficult enough on-site, it is particularly vexing and challenging — yet critically essential — across borders.

A second consideration is the communications infrastructure. In developing countries, services are prone to disruptions due to terrorism, political unrest, natural disasters, and other catastrophes. Before taking work to an offshore location, evaluate whether the country has an uninterrupted power supply, backup generators, and redundant communications facilities.

Disaster recovery and backup contingency plans are essential and should include plans to quickly shift work between locations as well as designate supplier and customer teams ready to travel on short notice to restore full operation in a new location.

A third management consideration unique to offshoring is physical security of intellectual property and trade secrets. These are important issues in any situation but are particularly critical in countries with different legal systems and enforcement mechanisms. While the leading nearshore and offshore suppliers maintain strong security measures and procedures to protect intellectual property, it is wise to limit offshoring to countries and companies that can offer security guarantees. The larger service providers typically provide these guarantees.

A fourth important consideration is the sharing of data and software across organizations and teams. This requires strict version control to protect the integrity of programs and data. It is important to keep versions of critical components in more than one location to apply backup and version control procedures and to use shared configuration control tools. Good conflict resolution processes clarify interests rather than positions, sustain a good working relationship

between client and supplier, invent win-win ways to resolve differences, foster good communication, normally lead to better solutions, and are considered fair by both sides. While the contract provides the basis for dispute resolution, day-to-day handling of disputes depends on the offshore outsourcing managers.

If possible, colocate the offshoring managers from both organizations so that person-to person communication is easy and spontaneous. Face-to-face communication is the most effective.

Poor management of the people involved in the arrangement can seriously jeopardize the success of offshore outsourcing. Client and supplier offshore outsourcing managers should discuss and attempt to reconcile differences in their approaches to conflict management as part of the transition process. This helps to develop a unified and cooperative approach to resolving disputes.

Attempt to resolve disputes at lower levels and to follow a defined escalation process that involves both companies. Meanwhile, watch for negative and positive patterns in dispute resolution over time. Encourage the positive approaches as permanent ways to resolve future disputes and curb negative behaviors. Offshore outsourcing managers in both companies must be trained in dispute resolution methods. At the same time, think twice about using a power advantage over the supplier to resolve disputes. Habitual use of power erodes cooperation and eventually destroys trust in the relationship.

Integration Actions

There are a number of important integration actions. The integration efforts should foster a good working relationship from the outset and encourage cooperation and teamwork. Integration actions include:

- Planning the integration effort
- Selling change to the organization
- Gaining buy-in from the people essential to success
- Organizing management teams and structures
- Establishing conflict resolution mechanisms
- Placing people who will undertake and direct the integration effort and lead the relationship management process (including the offshore outsourcing managers in both client and supplier organizations)
- Establishing good relationships between client and supplier specialists and managers
- Setting up procedures that direct the work and manage the relationship
- Establishing communication methods and means

Communications and Cultural Differences

Strong accents and cultural differences are areas of obvious concern that may interfere with communications or cause misunderstandings between the supplier and the customer

Some countries may lack adequate data and voice communications and other reliable infrastructure capabilities, causing difficulties in using videoconferencing for day-to-day communications between on-site and offshore staff.

The location of supplier personnel can be a very important issue, particularly when coordination with users or internal people is critical for the smooth provision of services.

Several dimensions of location affect the ability to communicate with, work with, and manage an offshore supplier. One is the magnitude of the distance separating the two parties.

Communication is easiest and best for people located in the same suite of offices. And generally, it is still not difficult for people in the same building on different floors. It is harder for people who work in different buildings, but on the same campus. The communications difficulties increase for people working in different locations in the same city, in the same area of a country, in different regions of a country, and in different countries.

If supplier people are located on different continents in widely differing time zones, the problems can be magnified. All this is why it is important to locate about 30% of the offshore staff on-site and communicate often between the on-site and offshore teams using videoconferencing.

Relationship Management Team

The relationship management team should be identified and appointed as early as possible but not later than the outset of the transition. People who participated on the offshore outsourcing evaluation and negotiating team are well versed in the details of the arrangement and should have already established relationships with supplier staff. So they are good candidates for the relationship management team.

The offshore outsourcing manager is involved in managing both the costs and benefits of the services in question. He or she is responsible for monitoring supplier performance and trying to balance the cost of monitoring against the benefits that monitoring brings. The typical department manager certainly monitors his or her department's performance, but the ultimate arbiters are the customers or users.

In other words, the perspective and skill set needed by offshore outsourcing managers is somewhat different from those for internal department managers. Yet it's common to automatically appoint the internal director to manage an offshore outsourcing relationship.

Necessary skills for relationship managers involve more than technical knowledge. They include business oversight abilities in monitoring requirements, approving changes and handling disputes; technical oversight abilities in planning technology architectures and setting standards; financial oversight abilities in monitoring costs and paying invoices; and contract administration ability to adjust the client-supplier relationship in response to changes such as new or declining business requirements.

Information Flow and Documentation

It is advisable to designate one focal point for receipt and distribution of information from the supplier. If the deal is a large one, a point of contact might be designated for each of the major functions. A focal point ensures that vital information is passed to the right people and helps with the management of the offshore outsourcing relationship. It is also wise to document the flow of

information, including information exchanged in all meetings, so that questions and problems can be matched with responses.

Meetings, Reviews, and Audits

The communications that are essential for effective management of offshore outsourcing begin with regular meetings and reviews involving managers on both sides. The meeting and review schedule may be specified in the contract, and if not, a schedule should be established early in the transition phase. Be sure the relevant people from the supplier side are obligated to attend these periodic meetings or reviews and have authority to make decisions.

Audits are an important way of maintaining control over suppliers and ensuring the quality of supplier work. Now in startup, the audit procedures are put into action. It's best if the contract specifies audit frequency and/or the conditions under which audits occur. If these are not identified in the contract, the client should set supplier expectations with respect to the areas to be audited, conditions, and frequency.

Managing People Issues

Personnel issues may be the most difficult to manage. Open communication with employees is usually the best policy. It's hard to hide the fact that outsourcing is in the works, particularly large outsourcing deals. The atmosphere of rumor and recrimination that accompanies an outsourcing shrouded in mystery normally fuels morale problems. Turnover problems can be reduced if employees receive timely and accurate information. Acceptance also depends on the perception that management is acting in good faith. As talks and negotiations progress with would-be suppliers, communicate at least the broad outlines or scope of the possible offshoring arrangement.

An important part of planning for offshore outsourcing is to identify the groups of people who will be affected by offshore outsourcing and to decide what their roles will be during the transition. Planning also identifies people who should be terminated. A retention bonus is one way to keep people in the organization during the transition and longer if desired.

Terminated Employees

Employees who have been terminated will want to know the criteria for termination and that these criteria were fairly applied. They should receive outplacement services and ample notice before layoffs occur. In addition to counseling and help with resumes, job searches, and office resources such as phones, the customer organization might extend benefits after termination to help employees make the transition.

Change Control

It's rare for an offshoring relationship to endure without some changes. Both sides must establish ways of addressing and controlling change. Large changes may require amending the contract, but many smaller changes can often be made within the framework of an existing contract. And changes can be very challenging when they involve more than one supplier.

Summary

It is true that many offshore outsourcing relationships fail or do not meet expectations. Using a resource experienced in offshore outsourcing during planning and implementation can mitigate the problems, and... if you follow the principles in the first article and set up the relationship management disciplines in this article, you will succeed and realize the benefits you anticipate.

Maxelerate's goal is to help Sourcing, Procurement, Purchasing, Engineering, IT and other professionals in all industries and government agencies to get better deals from suppliers. We accomplish this by providing Consulting, Training, Seminars and Leadership Implementation.

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