

# **The Diverse Facets of Offshore Outsourcing**

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## **Introduction**

Offshore outsourcing has today become the part and parcel of the global business world. To quote the controversial statement made by respected US economist Dr. Greg Mankiw, “offshore outsourcing is” now “yet another form of international trade”.

Offshore outsourcing has, in fact, grown far beyond a business aid to become major business itself. And the model if done well, has proved to be highly beneficial to both the outsourcing company and the vendor. This white paper on “The various facets of offshore outsourcing”, deals with offshore outsourcing in general and provide some valuable tips for companies looking to outsource.

## **Offshore Outsourcing**

Outsourcing is the act of obtaining services from an external firm. Offshore outsourcing refers to outsourcing to firms in foreign countries. Offshore outsourcing can be further explained as the process of moving work from high-cost, developed countries to low-cost, developing ones. Whereas, Offshoring is a process whereby business functions of a company are performed in a foreign country, whether by the foreign subsidiary of the same company or by a third-party.

The aim of offshore outsourcing is to gain value for the host organisation. Savings from the lower wage rate must exceed the increased cost of management and risks associated with offshore outsourcing for it to be economically viable. However, unlike earlier when outsourcing projects were assigned with just economic benefits in mind, now value addition is also an important component of an outsourcing deal. Apart from the substantial cost advantage gained, offshore outsourcing helps in better utilisation of your resources by concentrating on core competencies as well as gaining better quality from less expense.

Offshore outsourcing for most companies means outsourcing non-core functions and IT services. However, companies are increasingly outsourcing even important R&D functions to trusted outsourcing partners.

## **The advantages of offshore outsourcing**

The advantages of offshore outsourcing are manifold. Here are a few. Companies often face a shortage of people with domain expertise and specific skill-sets. Instead of investing in training and personnel and chasing technology, offshore outsourcing enable these companies to partner with world-class service providers, who have already made investments in technology, methodology and people.

Outsourcing non-core functions frees up precious capital funds for core functions. Investments in outsourced functions can be accounted as operating expenses and this can have a positive impact on the company's financial measurements by eliminating the need to show return on equity from capital investments. Outsourcing can also control expenses on research, development, deployment etc, because service providers leverage economies of scale to offer a lower cost structure.

To retain the competitive edge, companies have to constantly strive to reduce development and production cycles and get to the market quickly. Outsourcing significantly reduces ramp-up time, because the service provider already has trained manpower and infrastructure in place.

By going offshore, companies can also use the time difference between Western and Eastern hemispheres to cut production and development times. A company could in principle be working round the clock by following the sun. For instance, a company in the US could allocate work during its waking hours; the offshore provider completes the tasks while the US sleeps; the company reviews the work the following day and allocates more work in a seamless cycle.

## **How to find an offshore outsourcing partner**

The best method to find an offshore outsourcing partner is to run a competitive bid process and issue a Request for Proposal (RFP). (You can opt for a consultant to help you with this.) This will enable you to reach out to multiple vendors, experienced in the kind of outsourcing services that your firm need. It will also encourage the bid(s) you receive to be competitively priced. You will also get a disparity of viewpoints that will point out potential pitfalls that may have otherwise been missed. This will also give you the opportunity to divide your work among multiple vendors, selected on the basis of their ability to deliver a particular task.

Having multiple vendors bid an outsourcing opportunity provides your organization with a fallback strategy if negotiations or delivery later go awry. The more clarity and detail that you can provide in your RFP, the better your potential partners can determine if they can provide a solution and what it might entail.

## **How to make Offshore Outsourcing profitable**

In offshore outsourcing, meticulous planning, a clear understanding of immediate objectives and long-term goals, proper change in management practices and systematic implementation of outsourcing is essential to deliver significant strategic and business value over time. Maximizing the benefits of an outsourcing engagement is a shared responsibility that demands the commitment and trust of the enterprise and the IT service provider. Measuring the results requires benchmarking of existing performance, establishment of standards for improved performance, and quantification of results through objective data.

***Some of the most critical factors that must be done by the outsourcing enterprise to ensure the success of an offshore outsourcing deal include:***

***The right partner:*** Choosing the right partner is critical to successful offshore outsourcing deal. Thorough research must be done to choose the right partner. The outsourcing company needs to have an established infrastructure, a competent and highly skilled workforce and strong management team that understand the goals of the client. It must be definitely be capable of delivering high quality services on time. (The outsourcing dealer selection can be based on performance-affecting factors like service offerings and capabilities, management practices and procedures, customer base, business profile and strategy, price etc.)

***The right deal:*** The outsourcing party must be very clear about what they need. The more clarity and detail that an enterprise can provide in its Request For Proposal (RFP), the better, as this will give an idea to potential partners on whether they can really provide the solution and what it might entail. Later on, explain the needs clearly to the vendor. Make sure that the vendor understands it the way you want. (The basic process that needs to be done must be well thought out, documented and understood clearly by the team before going offshore so that it can be explained correctly to the vendor.) Before outsourcing make sure that the vendor is indeed capable of delivering exactly what the company needs.

***The right contract:*** Draw up the contract carefully. Recent research by Gartner recommends customised contracts, drawn with your organisation's specific interests in mind. Contract should stipulate the right to look at a deal in the event of an acquisition. In addition to fee and payment terms, other issues like audit rights, intellectual property rights, security and confidentiality, and legal compliance, must be dealt with. Gartner recommends having a point person for compliance matters. Sub-contractors in the deal should be held to the same security standards and confidentiality provisions as the provider.

***The right strategy:*** There must be an outsourcing strategy in place. The time spent to decide on the matters related to outsourcing is never wasted, but well

spent. In every race, only the well prepared wins; this is true in outsourcing too. Everything related to outsourcing like how to outsource, where to outsource, whom to outsource from, what to outsource, who will deal with the vendor, the cost-factor, the time-factor etc; must be decided in advance. Complete risk management process must be in place right from the time you decide to outsource.

***The right level of commitment:*** Both parties involved must work in tandem to ensure the success of the deal. Be involved right from the beginning. Make sure that work is progressing the way you want.

***The right location:*** Geo-political factors must be taken into account; infrastructure capabilities, laws and other local factors can affect the success of your deal.

***The right outlook:*** Cultural differences must be ironed out to ensure smooth functioning. Look at the long-term gains and overall benefits over immediate, short-term ones. Finally, don't base your expectations on market hype; expectations must be on more realistic parameters.

### **Some outsourcing facts:**

*Customised contracts are better*

*Long-term contracts fare better than short-term ones*

*Clear and frequent communication with the vendor is important*

*Security risks are inherent in most outsourcing deals*

*Outsourcing to multiple providers is safer*

*Frequent and proper communication between the parties involved is important*

*Risk management is crucial when drawing the contract*

### **Major problems associated with offshore outsourcing**

Finally, while concluding this white paper it must be said that, though offshore outsourcing has many benefits it is not without problems. Besides direct issues that any company considers like quality, cost and security concerns; there are many indirect aspects that can affect the successes of an outsourcing deal. Cultural issues, high service-level expectations and high transitional costs are some of them.

Workers in outsourcing destinations have been identified as having difficulty in saying no to any request, even when the request is not a feasible one. This often causes complications for westerners who are generally more outspoken and expect the same from their counterparts. If the deal needs constant interaction, the over-polite culture of the vendor can be a problem.

In an independent study commissioned by Accenture on cross-cultural communication problems in which about 200 US business executives whose companies have outsourced business processes outside the country were interviewed, the chief factors causing problems between onshore and offshore workers were identified. Different communication styles (76 per cent of the times), different approaches to completing talks (53 per cent), different attitudes towards conflict (44 per cent) and different decision-making styles (44 per cent) were pointed out as the most outstanding problems.

## **Conclusion**

Software development is a complex job, highly technical and fast changing. Taking decisions without proper market research on the various aspects that is involved in the outsourcing process, as well as expecting too much in too short a term, not maintaining the relationship, miscommunication between partners can all result in the failure of an offshore outsourcing contract.

However, though deals have failed due to any or many of the above issues, one thing is certain, Offshore outsourcing if properly done can surely be beneficial to the outsourcing enterprise in the long run.