



Top 10 Practices For Achieving High Performance Offshore Outsourcing

A topic that is puzzling most executives today: "We have been engaged in offshore outsourcing for a few years but are we getting true value from it?" Many companies are finding that their goals are not being met in a consistent way. Issues like schedule delays and slip in customer satisfaction begin to show up. There are fundamental problems underlying this and other similar issues. This white paper helps you understand the root causes and ways to address them.

Let's reduce costs by going offshore with some development or service functions! The board and management agree to set up offshore activities in a place like India, China, Russia, Slovenia, or Bulgaria. Time passes. Everyone is happy. Right? Well, maybe.

Facing the inevitable hurdles

Recently a Silicon Valley Company faced with a management challenge called me. They had been offshoring for the past few years. In the early stages things seemed to go well, but in the recent past they were encountering several issues; many in middle management felt that this whole idea of offshoring was not working. It was simply taking too much management time, was not saving the company any money and in fact it was a bad idea. Senior management could not understand why this was happening. After all, they had done a lot of due diligence and chosen one of the top tier vendors in India. They had devoted significant internal resources to establish and manage the offshoring initiative.

This Silicon Valley Company is not alone in experiencing such symptoms. While some companies are quite successful, many are finding that their goals are not being met in a consistent way. Over time, issues creep into the picture; here are some examples:

- **Product schedules begin to slip** and Customer satisfaction relative to functions provided by the offshore group starts to decline. Customers feel the product is moving away from their needs or the call center doesn't seem to "understand our needs".
- **Politics develop** between the marketing, product management and/or development functions in the US and the offshore operation. There is finger pointing and the US based groups complain about the offshore group doing their own thing and the offshore operation complains about lack of solid product requirements and communication problems with the US groups. Teamwork, a strong point of the company, seems to break down on any subject dealing with the offshore operation.
- **Offshore attrition.** You invest valuable U.S. staff time to train the offshore team and put in a lot of hard work to do trial runs. At this point, several months have passed; you now conclude that they understand your issues, you reassign and/or remove staff at your U.S. location, because you can afford to duplicate staff only for so long. Not much longer after this move, you learn that key developers and/or team leads have left the offshore team. Even though the offshore organization says that they will address it, you realize that there is no way that they can do it, without investing additional resources from the head quarters.
- **Benefits from offshoring are questioned.** Your staff starts complaining that low productivity in the offshore operation is eliminating the cost benefits that you justified the movement to offshore in the first place. Added to this, there are costs associated with travel, communications and duplication of equipment, to name a few. The implied conclusion by at least some of the staff is that it is not saving money after all and it was a bad idea to have gone offshore. Even in the beginning if you have found that the offshore initiative was saving you money, the situation can change over a period of time – one factor is the escalating labor cost offshore.

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- **Vendors develop problems.** When you were working with vendors to set up the initial project(s) for offshore work, they were attentive and you felt they considered you to be the most important client in the world. They took time to expose their people to your company's specific needs. Now they seem distracted and distant and the people don't seem to remember all of your needs. Call center activities can lose the meaning of scripts they follow and that can lead to consumer dissatisfaction. Key members of the team that supports you may change either due to attrition or due to the policy of rotation.

Top 10 best practices to address these issues

Almost every company with offshore operations encounters these and other issues along the way. The problems are not immediately obvious, especially to those who have been involved in the offshore projects from the beginning. Here are the top 10 best practices successful companies are employing to address these and other issues to make offshoring successful.

1. **Attracting and retaining offshore staff.** Conventional response to this issue is to improve compensation. While this is necessary, it is usually not sufficient to address the issue on a long term basis. For example whether you are offshoring only routine tasks or providing an opportunity for the offshore team to do new development can make a difference.

Another factor that can influence attrition is the choice of right business model to begin with. Some companies have gone offshore and established a 10 to 20 person subsidiary. If you do not have local branding, it can be hard to retain key developers since they can see better career opportunities at a larger well established organization. Regular audits that go beyond personnel policies can help uncover issues.

2. **Broken Offshore management processes.** Even when the initial projects work well, problems can enter the picture. Domestic groups are accustomed to dealing with issues by walking to the adjacent cubicles and talking through things. With continents and time zones separating the teams, processes must be razor sharp and maintained religiously or they will break down. The companies that are best at offshore activities will tell you that they must periodically review all processes to assure the goals will be met for the offshore site and that operations are smooth both domestically and offshore. Typically, symptoms of broken processes include time and cost problems, politics between domestic and offshore groups, and breakdown of teamwork. Periodic audits are needed to identify and correct such problems.
3. **On-shore/Offshore mix:** Over time, you end up with significant on-shore staff. This happens because it is one way to reduce risk. But it is expensive. With right management processes, you can have more staff offshore and less on-shore. You need to identify the best mix for your situation and conduct periodic reviews to make sure the ratio continues to be optimal.

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4. **Project Portfolio:** Surprisingly outsourcers are often given assignments that are almost impossible to do well. These include projects that demand specialized domain or cultural knowledge, lots of face-to-face interaction, and fast-changing performance goals. As part of the audit, take an objective look at your offshore portfolio and restructure for success.
5. **Team integration:** The most successful offshore relationships involve very tight integration between your own staff and the vendor's own employees. You need to take a regular "health check" on this relationship: Are both teams communicating well? Are there enough metrics in place for commitments review? Are there turf wars and political battles going on behind the scenes? Is bad news being hidden? If there are relationship problems, you need to identify and address them.
6. **Performance metrics:** What you *don't* measure will generally get neglected. You *should* identify the critical areas and establish metrics; just the fact that you have communicated your decision to watch these key metrics often improves performance.
7. **Offshore Productivity:** With time, offshore productivity can begin to suffer; this is especially true when an offshore operation begins to grow. You need to take stock of various possibilities that impact productivity; some common inhibitors - processes, training, infrastructure, tools, your own management structure and your offshoring model.
8. **Management competency:** Typically, managers and executives find themselves with the task of managing an offshore effort or initiative. Often they do not receive training in the nuances of managing offshoring. Though they will develop this skill over time, you may want to consider providing training to help them get up to speed rapidly. If you have done this initially when you launched into offshoring, you need to continue to train new managers.
9. **Contract optimization:** Though sounds strange, many offshore contracts are not aligned with your business goals. Review your contracts to assure that offshoring specific issues are fully covered and that the right metrics are included for goal alignment.
10. **Regular audits.** Management has plenty to focus on these days. Nothing goes smoothly all the time. The problem du jour can consume a management team and offshore activities are increasingly left to operate in a vacuum. Depending on the nature and severity of the problems that distract management, the situation offshore can get very severe before it hits the radar screen. By then many things are broken. "I didn't hear anything about it and assumed that everything was OK." How did it get broken so fast?

An initial assessment to get a handle on how well the offshore initiative meets your objectives, coupled with a regimen of regular assessments can avoid big problems. The key is building the mechanism in your operations so that regular assessments to optimize your offshore operation are expected and anticipated by all members of your team.

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Summary

To be successful, offshoring requires constant vigilance. Assuming you have been successful in getting past the initial challenges, you cannot rest. Over time due to rapid growth in offshoring and changes in your own organization, issues begin to creep into your offshore operation. To continue to be successful, you need to put in place a process for periodic assessments of your offshore operation.

Contact us

Do you like us to analyze your situation and recommend steps you can take?
Contact us for a no obligation initial consultation.
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Authors

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Don Fowler is advisor to Offshoring Success and former CEO of SumTotal Systems, Inc., Mountain View, CA. During his 49-year career, he has held executive or management posts with companies such as Tandem Computers, Bechtel, IBM and Boeing. Don has been extensively involved with startups, having been CEO of two and served on the advisory board or board of directors of many. He serves on the President's Cabinet at California Polytechnic State University, San Luis Obispo; he is a member of the executive committee at Cal Poly.

About Offshoring Success

Offshoring Success has worked with dozens of executives and managers to assure successful offshoring. We do periodic audits to assure that processes and issues are identified and corrected ensuring offshoring success. We are professionals in this subject area. Our services are flexible and customized for your specific situation.

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