

What do you face when outsourcing or offshoring? Square Peg International's **Doug Ross** takes a closer look at the key issues and how to get it right



The perils of outsourcing... and how to avoid them

Call centres and IT support leap to mind at the suggestion of outsourcing/offshoring, but in fact, almost any business function, product or service can be offshored or outsourced. This includes finance and accounting, sales and trading, data analysis, research and development, IT operations, engineering design, medicare, legal support services, art, animation and DTP, software development, environmental processes, customer services...you name it.

The cheaper labour and resources in developing countries are no longer the prime reasons for choosing to offshore. In many instances, a company will do so because of skills shortages in the country of origin. In developed countries, leaders are looking with increasing alarm at negative birth rates combined with ageing population trends. These will form a sizeable gap in the labour market in the future. In developing countries, however, there are large numbers of well-educated, English-speaking graduates coming into the market.

Another benefit of offshoring is the real-time support the destination country in another time zone can offer. In areas like IT, medicare and data analysis, this is invaluable. Also, by spreading your geographical locations, you are able to mitigate risk factors of natural disasters or war.

Many choose to outsource product or service functions so as to

focus on the company's core business. This ensures a commitment to quality and makes sense, especially if the functions outsourced are seasonal and do not require a full-time presence.

Offshoring to take advantage of these workers in Eastern Europe, India and China is set to grow exponentially, as business leaders review their strategies and forecasts. Can you afford to be left behind?

ASSESSING THE BUSINESS RISKS

But for all the advantages, there are many risks to consider, such as:

Domestic resistance: Resistance to outsourcing/offshoring can be strong, especially in the origin country, where workers resent job losses. Traditionally 'safe' jobs, for example, in science, maths, IT and engineering, are endangered by the increase of cheaper labourers with the same skills in developing countries.

Language skills: Customers complain about the poor language skills of offshore call centre workers and the decline of service standards. This is especially true in retail sectors where, once the sale has been made, there is little benefit in providing a high standard of expensive after-sales support, especially if there will be no return business.

Creating competition: You must take into account that while offshoring is primarily a move to get a lead on the competition, they may be breeding competition offshore. Take for example the

United States' practice of outsourcing the manufacture of auto parts to China. China is now a major manufacturer of automobiles and is actively competing within the US market.

Intellectual property theft: This is one of the main concerns of origin businesses. One only has to travel to popular tourist destinations and see the huge number of goods that are excellent copies of big name products being sold at a fraction of the price.

Fraud: Fraud and corruption can be major issues in the developing world, so much so that India has introduced a National Skills Register to enable employers to trace a worker's history.

Working conditions: Finally, while the fact that the lack of regulation regarding employee benefits, health and safety and other labour laws might make a destination country economically and bureaucratically attractive, it is important to take into account the human rights issues of workers.

CONDUCTING DUE DILIGENCE

You must conduct thorough due diligence when choosing an offshore destination. Factors such as the infrastructure of the destination country, language, culture, standard of education, distance from source and time zone will all affect the value of an outsourcing/offshoring project.

Unforeseen costs are bound to arise. Bangalore, for example, has been cited as the third-most expensive place to stay in a hotel worldwide. Hoteliers have seen the opportunity to hike prices for the many executives who need somewhere to stay while they oversee their offshore projects.

The cost of travelling to and from a destination company can be expensive, and it's not possible to foresee just how much real person-to-person contact will be necessary. Initially, much may be essential to ensure your processes are defined clearly, or standards may drop. Some companies require offshore managers to spend a certain amount of time in the origin country to learn the business at source, which can also drive up costs.


With businesses worldwide leaping onto the offshoring/outsourcing bandwagon, there can be a high degree of staff attrition early on in destination areas. Staff may choose to move

very quickly to the newest company, offering better benefits. HR and managers must define clear and effective recruiting procedures to ensure they hire the right people for the job – and keep them.

With a presence in multiple countries, a company may find many of its processes are duplicated. It is important for leaders to keep a handle on these and, if necessary, set up streamlined procedures.

DECIDING TO OUTSOURCE

The decision to offshore, nearshore or outsource a part of a company's business procedure is one of strategic intent. It is a risk-taking exercise, requiring commitment and time. Above all, it is an exercise in change which will affect your employees, customers and shareholders. It is essential you make sure the change is managed seamlessly and that your company's quality remains unaffected, or better, is enhanced.

A key part of this change management process is the need to carefully manage cultural alignment between parties in both origin and destination countries. Careful, strategic planning, strong leadership and effective people practices must work together to ensure the venture creates maximum value. In many instances, consultation with experts, such as the National Outsourcing Association via www.noa.co.uk, who provide guidance and assistance during the process can be of inestimable worth. The world will continue to globalise. Smart-thinking businesses will take advantage of outsourcing and offshoring and start to leverage the world from their doorstep. 

Doug Ross is managing director of Square Peg International and specialises in areas related to the people side of change, mergers, acquisitions, joint ventures and cultural alignment. In 2003 Ross was recognised by The Independent as one of the top 10 management consultants in the UK. Most recently, he was invited to be visiting fellow at Kingston University.

Square Peg International is a boutique consultancy firm focused on the people side of change, helping leaders and their organisations through transitions. www.squarepegint.com

THE PROS – IF IT ALL GOES TO PLAN

DOMESTICALLY

- Free trade
- Increased GDP
- Increased cultural awareness and empathy
- Lower cost of goods
- Cheaper labour costs, with similar education levels
- Improved service levels, product quality, boosted customer satisfaction
- Increased training, leading to benchmarking of services and costs
- Increased training, leading to excellent best practice procedures
- Increased training, leading to closer proximity to a new customer base
- Increased training, leading to avoidance of restrictive origin country regulations
- Increased training, leading to alternative to immigration to fulfil labour shortages

THE DESTINATION COUNTRY

- Free trade
- Increased GDP
- Increased cultural awareness and empathy
- Increased jobs and services
- Substantial economic and welfare benefits
- Increased training, leading to higher education levels