

Recipe for offshore outsourcing failure: Ignore organization, people issues

David Foote, co-founder and president at Foote Partners, New Canaan, Conn., leads the firm's research division and has for many years tracked outsourcing initiatives involving information technology workers. A long-time IT analyst and consultant, Foote has worked for Gartner and founded META Group's executive service for chief information officers and led its human capital management research. Today Foote Partners advises businesses on outsourcing solutions and tracks IT compensation, employment, and workforce management trends.

Here, he talks with *ABABJ* about the implications of research data he's collected pertaining to offshore outsourcing deals spanning many industries and government.

Foote indicates that while more than



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failure rates even for companies that have decent onshore outsourcing track records. The obvious differences are the geopolitical risks, country factors like culture, infrastructure, and labor pools and—because offshoring is about cost savings—treasury issues related to exchange, inflation,

and interest rates. And of course socioeconomic considerations are generating much controversy and can't be ignored. But really, so many more factors need to be considered because of fundamental differences in planning, sourcing, and management.

What additional factors should a company consider?

What astonishes me from our research is how often companies get past the

ment, knowledge transfer, and portfolio assessment, and planning.

To get a sense of your sample, how many deals have you looked at, and when did you begin tracking offshore deals?

I've profiled 90 offshore initiatives since 2001 and nearly 800 outsourcing programs going back to 1993. The focus is on outcomes and customer experience: I want to know if the deal worked and why or why not.

And your findings....

We discovered a failure rate of more than 50% for offshore outsourcing initiatives. Not that they absolutely stalled and sank, but cost savings and performance targets outlined in contracts were not achieved because either the work wasn't done with the quality or timeliness expected, or hidden costs and other surprises created problems, like those mentioned earlier.

Why such a high failure rate?

Lots of reasons, however transition challenges and inability to navigate difficult organizational and cultural barriers are big culprits. It's rarely about poor supplier choices or not negotiating a good contract. Failing to fully address so-called "soft" issues like middle-management resistance and internal communications is common. For example, companies neglect to broadcast clear, succinct statements of why they are offshoring and the upsides expected. Even worse, they obscure possible negatives (such as layoffs and shifting job responsibilities) and provide scant mechanisms for feedback and two-way communications that are valuable for "damage control" and involving workers in the offshoring process. All of this breeds frustration and disaffection, giving in-house talent critical to the program's success

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"What astonishes me is how companies will mess up in the vendor management phase, getting caught by fairly obvious things"

half of offshore sourcing initiatives "fail," that is, do not meet stated performance objectives, those that thrive tend to occur in companies adept at handling the vast organizational change and people management requirements.

Outsourcing has been in the news a lot, especially the offshore form. Do successful approaches to onshore outsourcing work equally well with offshore sourcing?

One of the worst mistakes a company can make is to treat them alike. Offshoring is more complex and presents higher levels of risk, which has raised

planning and contracting stages only to mess up in the vendor management phase because of fairly obvious things overestimated or ignored early on. For instance, they haven't taken seriously risks associated with organizational change and transition, communications, human resources, project delivery, and stakeholder management. An intensive and honest upfront assessment of "internal readiness" would have identified vulnerabilities and helped them avoid mis-cues. There are substantial differences with offshore outsourcing in due diligence on operating models and supplier selection, resource deployment/redeploy-

Dialogue

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good reasons to disrupt the program. Couple that with not fully anticipating the cultural differences that come into play while working closely with a partner outside the U.S., and you've got trouble in the making.

Basically, too many companies abdicate management responsibilities to the offshore supplier, which can cut deeply into cost savings. With offshoring, building and maintaining strong business partnerships with remote suppliers is mandatory. So is handling a slew of expatriate HR activities ranging from compensation, taxes, visas and travel policies, to relocation, staffing, and intercultural training. Companies overestimate their international HR capabilities and make dumb mistakes.

Out of our offshore outsourcing consulting practice, we developed an assessment checklist and measurement tool to help would-be outsourcers get a sense of their own level of internal preparedness [to obtain a copy of the Offshore Outsourcing Risk Assessment Checklist go to

http://www.footepartners.com/00_Checklist.htm]. Managing multiple relationships, assessing transition and communications issues, and evaluating global management capabilities are factors on the checklist.

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Are there other "outsourcing effects" that you've noticed?

We have been reporting off-shore outsourcing pressures on stateside compensation since late last year. Our compensation surveys are showing that offshoring of IT labor is making onshore skills supplies somewhat less important, resulting in lower

salaries for IT workers in a number of positions. And, as more work is transferred offshore or directed away from IT full-timers, premium bonus pay for hot technical skills has become unnecessary.

Outsourcing remains such an emotionally charged issue. How do you feel about it?

Many bright and capable IT professionals aren't working, which nobody feels great about. On the other hand, I'm aware of many IT workers who are pleased that mundane work has been offshored, and several former IT employees who are quite happy being out of the technology rat race. But I will say that America has a long history of creating wealth and jobs, and then moving those jobs to places where labor costs are lower. There's no reason to believe that this won't continue.

The fact is, with their enormous transactions processing operations and fierce margin competition, banks and diversified financial services companies clearly have much to gain. Well-executed offshore outsourcing is a no-brainer for the banking industry. *BJ*

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