How Agile Offshore Practices Can Avoid the Real Costs of Offshore Outsourcing

~ By Jason Lin

CIO.com recently published an article outlining the “real” costs of offshore outsourcing. It has compelling arguments why offshoring drives down strategic value in the long-run. They touched upon five major risks for offshore outsourcing. It is so convincing even a firm globalisation believer like me has to acknowledge these disadvantages:

1. Service quality by offshore staff rarely is as good as onshore staff, especially in call centre and customer service fields.
2. Geo-Political risks abroad, especially concerning offshore service providers meeting compliance in the Western nations, for example the Satyam scandal.
3. Offshore outsourcing vendor relationship equals high management costs and high percentage of failures.
4. Intellectual property protection risk, especially outsourcing to China.
5. Risk of losing intellectual capital and knowledge, hurting the company’s long-term competitive advantages.

Although these are “good” reasons not to offshore, I still believe the industry will prosper with innovative models. Let’s face it, the fundamentals of international trade won’t change, labour arbitrage and most efficient allocation of worldwide resources. Many companies still see commercial benefits to offshoring. The key is building a collaborative offshore model to successfully manage the 5 risks mentioned above.

The outsourcing 2.0 buzz has been around since 2004. In essence, it is about aligning buyer and vendor interests with more collaborative and agile approaches. However, the industry still lacks a standard approach to so call outsourcing 2.0. One of the challenges is how to properly define such an overused term as “agile.” What exactly does being agile mean with your offshore collaborators? Ideally agility drives value to the customer with greater service flexibility.

Here are a few ideas of how “agility” can help mitigate the 5 great offshore risks. Remember, both you and your vendor have to reach agreement that transparency and honest assessment are key components to executing an agile offshore engagement. You should also leverage the latest web based technologies to accomplish agile collaboration. Please do not take these as best practices. They are far from perfect. But hopefully they will provoke further thoughts and discussions to help establish the right offshore engagement under different circumstances.
1. Offshore Service Level Risks

Buyers should devote more time and executive level support to directly training the vendor's mid to low management personnel. Buyers cannot simply outsource the entire training responsibility and expect great results. Buyers needs to have a more collaborative process for training design, delivery and measurement with offshore vendors. This is the only way buyers can consistently improve the service quality from offshore staff.

2. Geo-Political Risks

This is somewhat of a systematic risk. We certainly hope law makers from different countries work to achieve international standardisation on various regulatory issues in the post US sub-prime era. Besides counting on the governments, buyers and vendors can leverage enterprise 2.0 technologies to ensure a more transparent governance structure and more efficient communication on regulatory requirements and updates.

3. Offshore Relationship Risks

Like any vendor management, relationship is the key. An offshore relationship is more breakable due to cultural differences and complex outsourcing contracts. A "don't put all your eggs in one basket" approach is one way to mitigate vendor risk, but not very sustainable. You can't hop around vendors continuously. An ideal approach is to establish a dedicated offshore team with 100% transparency. You should assign each onshore team member an offshore buddy. You can design policies and project tasks to accommodate their collaboration on a daily basis. With all the great social media tools available today (e.g. Enterprise Twitter, Enterprise Wiki, etc.), it is easy for onshore individuals to build work chemistry and social relationships with his or her offshore buddy. As long as they work well together and drive end results, your vendor relationship will be just fine.

4. Intellectual Property Protection Risks

This is indeed the most challenging risk to mitigate. IP protection is a big issue among local teams as well. Vendors typically won't mess with your IP, but it's the vendor's offshore employees you may have an issue with. You have little control over what they do with your idea and IP when they leave the vendor to join a competitor or start a new venture. The best advice is "know your offshore team." Again I am stressing transparency here. You should invest time to screen the quality and integrity of your offshore staff and have traceability of offshore HR. This way, in the event of an IP breach, you have a better chance of identifying the leak.

5. Intellectual Capital Loss Risks

The concern of losing intellectual capital somehow contradicts the principle of "outsourcing." Companies intend to "outsource" their non-core components. Since offshore industry and process mature, buyers today can leverage offshore vendor’s expertise to support mission critical products and services. In such engagements, buyers need to maintain the ability to replicate those outsourced processes or tasks in the event the offshore relationship ceases. Referring back to the training investment buyers should make in offshore staff, the same can apply to rebuilding an in-house team if necessary.
The CIO.com article specifically mentioned in-house developers don’t create development toolkits anymore because of IT outsourcing. It will cause significant knowledge loss for future enhancements, especially if the offshore relationship sours. Perhaps cloud computing can address some of the concern of knowledge loss. Buyers and vendors are required to collaborate on a cloud based virtual computing environment hosted by a 3rd party infrastructure provider. This way, all the knowledge accumulated throughout the engagement is securely stored in the centralised data centre where information access is controlled by the buyer. It will improve overall outsourcing security and collaboration on a multi-tenant basis between the onshore and offshore teams. Buyers enjoy full control of data access and backup with on-demand scalability.

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