

A risky business?

The top 10 challenges of offshoring

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Organisations embarking on offshoring face multiple challenges; many of which can be extremely daunting. However, when the key challenges are fully understood, appropriate processes and structures can be put in place to overcome them. This article explores the top 10 challenges of offshoring today and provides suggestions as to how to tackle these head on in order to realise the benefits of offshoring.

Challenge 1: Internal organisational barriers

Any offshoring initiative inevitably leads to internal organisational debates on whether to offshore or not. If such debate is not managed properly it can quickly lead to the dismissal of the offshoring initiative without proper consideration being given. To ensure organisational 'buy-in' it is essential for the board and senior management to be involved from the outset with common communications messages and unequivocal support.

Challenge 2: Choosing the right location

Some customers sign contracts with service providers in offshore locations without fully understanding the risks associated with each location. The risks associated with locations are very often linked with the type of services that the customer plans to offshore. Risks could include: geopolitical issues, skill availability, local labour competition, legal and intellectual property-related issues, wage inflation, attrition or currency fluctuation. In order to understand and overcome these challenges, a full location analysis, customised to the specific needs of your organisation, should be undertaken so that service providers can be chosen in appropriate locations with the correct balance of benefit and risk.

Challenge 3: Choosing the right supplier

The key to successful offshoring is finding the right partner. However, choosing the right offshore partner for your business is a major challenge. Most offshore providers have operations in the same locations, offer similar services, and have similar capabilities and quality certifications. Given this backdrop, it is difficult to identify the key differentiators. In order to fully understand service providers' capabilities and differentiators it is essential to constantly evaluate their performance over a sustained period of time and to build a good working relationship with them. Sourcing advisors undertake such evaluations to gain a full understanding of the providers, their capabilities, strengths and weaknesses along with maintaining good relationships and can, therefore, provide you with valuable support in the selection process to assist you in choosing the appropriate partner for your business. References and customer visits are an essential part of the selection of any offshore service provider. While visiting the remote operations of an offshore provider will give valuable insights to the service provider, there are far greater learning opportunities available through those that are already working with these organisations.

Challenge 4: Cultural compatibility

Cultural compatibility is one of the most evident challenges of offshoring. It includes compatibility at a corporate level, process level, and on a day-to-day interaction level. We believe that in order to overcome cultural compatibility issues, it is vital to understand the potential risks in order to deal with them. We advise our clients on the typical cultural challenges they are likely to face during their offshoring initiative and support them in effectively overcoming them. Again, taking up any and all reference opportunities to effectively gauge how the delivery experience of others might suit your requirements and culture is vital.

Challenge 5: Procurement of hardware and software licences

Offshoring often involves the procurement of hardware and software licences, which could be challenging as the contracts are procured from offshore locations. In order to avoid the risks associated with overlooking these items, the contract negotiations should include hardware and software licences and clearly outline responsibilities. In addition, they should be included within the Request for Information and Request for Proposal stages of the selection process, as late inclusion of additional or unforeseen cost elements will lead to issues later.

Challenge 6: Loss of control and knowledge transfer

Offshoring involves the handing over of considerable process control to the supplier and consequent transfer of knowledge. Such transfer of knowledge and control can be perceived as a loss of overall control and, therefore, present internal challenges. In order to overcome these challenges, a comprehensive transition plan must be created and implemented including thorough documentation of all processes and interfaces, procedures and sources of all knowledge and information.

Challenge 7: Data security

Often offshoring entails allowing access to critical customer data and information to offshore suppliers and any breach in data security could severely impact your business and your customers. It is essential to ensure that data security is maintained while offshoring by performing comprehensive service provider and location due diligence along with legal enforcement. While the Data Security Compliance responsibility is always with the client, the service provider must accept responsibility to ensure it protects data security at least as well as you would do, if not much better.

Challenge 8: Building a retained organisation

To ensure sustained benefits from offshoring it is critical to put robust governance models in place operated by a highly skilled and experienced retained organisation. In order to create the governance models, however, it is essential to understand the company's short-term and long-term goals and to establish the proposed role of the retained organisation. It is critical to note that the retained organisation is the key enabler to long-term success but the skills required are not often present in the organisation beforehand – the business case may need to encompass external recruitment of the correct skills.

Challenge 9: Controlling cost overruns

The majority of offshoring initiatives that fail do so because of the inability to realise the perceived or anticipated cost benefits. The key reason for perceived cost overruns is that most business cases are simplistically built on the basis of the wage cost arbitrage rather than a complete assessment of all elements that contribute to costs – both direct and indirect. Some of the cost aspects are underestimated, such as travelling to offshore locations, which could be very expensive both in terms of costs and resources, other elements of cost, such as knowledge transfer, are forgotten completely. In our opinion, all the various aspects that contribute to cost should be factored in to ensure that a realistic business case is constructed and maintained to inform everyone of the benefit being achieved.

Challenge 10: Service providers failing to deliver

The failure of service providers to deliver on time could have a severe impact on your bottom line. Offshoring makes it more challenging to monitor performance for reasons such as distance, cultural conflicts and so forth. However, we believe that with a robust governance model, detailed performance monitoring processes, and the use of service level agreements (SLAs) based on key performance indicators (KPIs) that identify appropriate metrics to measure performance and keep projects on track, effective and timely delivery can be ensured.

Although there are many challenges associated with offshoring, through proper planning and due diligence, they can be overcome. An independent sourcing advisor can play an integral role in assisting you to solve these issues and ensure you reap the benefits of offshoring, shorten project timescales, mitigate project risks and leverage the learning of the many organisations that have gone before you.

About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, Middle East, Africa and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

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