

## Chapter 24: The Risk Factors

You need to sell the programme of offshoring to India within your organisation because that is what everyone is doing. But outsourcing to an offshore vendor is a risky business. This may be the new knowledge economy, but offshoring your important business processes is too risky a project for cost reduction alone. When you start selecting vendors, the sales team will give you the following message, in various formats and with some very slick PowerPoint slides:

1. Offshoring allows you to tap into global resource pools. You can gain access to resources in an environment where skilled labour-supply is almost unlimited. For example, India produces almost 2.5 million new graduates each year and at least 350,000 of those are in science and engineering disciplines.<sup>1</sup>

2. Offshoring is strategic. You can focus on your core competencies and, therefore, allow your organisation to focus on winning new business and servicing clients, rather than keeping the lights on. Hand non-core tasks to the experts and let them get on with it.

3. Offshoring creates flexibility and innovation. You can ramp up the team size quickly as markets improve, and reduce it easily when there is less demand. Innovation is created through the process of creating a new environment where continuous improvement is the norm.

That is all fine. You probably know it already if you read this book from front to back, but the success rate has been patchy - as companies such as Dell and Lehman Brothers can affirm. Consultants and vendors highlight the benefits of cost reduction and process reengineering without mentioning that lifting your technology or business processes and dropping them into a vendor organisation halfway around the world is not easy. Sometimes it is not even the right choice and sometimes it does not work, for a variety of reasons.

Vendors are very good at selling outsourced services. They can present glowing images of their own services and can make others in the same market appear to be mere amateurs. However, they often focus on the process of selling the offshore service without helping the client through the entire process. This is my experience of what the vendor often forgets to tell you about the risks of outsourcing:

1. Search costs and outsourcing style;
2. Metrics and key performance indicators (KPIs);
3. Change;

4. Culture;
5. Media and public relations;
6. Data protection; and
7. Infrastructure.

Failure in any one of these key areas can cause the breakdown of an existing vendor relationship or negate months of negotiation over a new contract, so it is essential to keep these points in mind right from the start of your outsourcing venture. This chapter refers back to earlier sections of the book where the specific risks are addressed.

## Search Costs and Outsourcing Style

In a simple analysis of offshoring, the cost advantage will always rise to the top of the list of reasons to move forward with the programme. That's what the press chooses to focus on and it is a fact that this is the easiest way to get your board members to also sit up and take notice. However, a simple business plan that only emphasises the arbitrage between the cost of performing a process in an industrialised nation and the cost of performing that same process in a lower-cost environment fails to acknowledge the effort involved in getting from here to there.

As outlined earlier in this book, there are many ways of entering into the creation of an offshore subsidiary or outsourced relationship, and the process of determining how best to do this will consume a considerable amount of management effort. You can become consumed by the multitude of options and suffer from an attack of analysis paralysis. This has been labelled the "search cost" of outsourcing by the Work Foundation *iSociety* think-tank. The questions you need to ask here are:

- What do you want to outsource? Which processes can and cannot be outsourced from the main operation? And, should you phase this process to initially target the "low-hanging fruit" or take a "big bang" approach?
- Why do you want to do it? It is important to create and track measurable targets before, during and after the transition programme to allow a focus on the initial criteria and to highlight further benefits.
- How will you achieve it? You may need to utilise the services of a consulting firm or hire some new internal expertise. It is going to be a long road to offshoring success, so getting some experience on your team is essential.
- Where will you go to? Many countries are now offering excellent human resources and infrastructure. India may remain the world leader for many offshore services, but other nations are raising their game and becoming increasingly attractive.
- Who will you work with? You may seek a local company to partner with through plain vanilla outsourcing or a more complex arrangement, such