



Offshoring - Beyond Cost and Resource Availability

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Date: March 2006

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1. Introduction

Offshoring has long been driven primarily by either cost advantage or by resource availability.

On comparing the cost of an employee in a developing economy like India against that of a developed economy like the USA, the cost advantage is very clearly understood. Further, such developed countries bring in various schemes (Increasing the cap for H1B visas by USA or green card scheme for IT professionals by Germany) to ensure increased availability of talent pool in their countries.

Yet Offshoring is seen as a risky or difficult proposition by many organizations. This note examines how, in the software industry, Offshoring goes beyond cost and resource availability..

2. Offshoring Challenges

There are several perceived challenges (or risks) in Offshoring of a software project. We will deal with each risk and also look at the positive and long lasting benefits that accrue from managing these risks successfully. We can summarize these benefits as below:

- Improved Manageability
- Enhancing Clarity
- Bringing in the right business model of work-sharing
- Increasing Maturity of the Offshore model

3. Offshoring Advantages

Let us look at each of above benefits from the perspective of pain points (or points that are put forth by opponents of Offshoring), by discussing each of them.

3.1 Improved Manageability

Whenever top management has decided to move ahead with an Offshoring model, most middle management or employees have always indicated the inherent risk of 'reduced manageability'. For managers this could mean working with people sitting several thousand miles away, dealing with a culture that is alien to them, lack of ability to assign and get the work done with a remote team etc. For employees this could mean lack of job security, or inability to visualize the potential benefits of Offshoring etc. When forced to adhere to the top management's decision, they try to reduce their anxiety by bringing people onsite under one pretext or the other.

So by bringing people as contractors (non full time employees) or as an onsite team of the software vendor, they try to continue their exercise of control over them. In other words the management is more **'managing the actor rather than the actions'**. The managers believe that the management of projects is all about managing people alone. While people management is not to be ignored, management of actions is equally critical. The Manager must ensure the management of actions by a clear expression of the following:

- a. Purpose of work
- b. Criticality of timelines
- c. Importance of team work
- d. Need for quality/standards
- e. Inter dependencies of actions and actors
- f. Risks and mitigation plans of work
- g. Business benefits
- h. Allocation of role & responsibilities.

While some vagueness or gaps do exist in a team that is physically in the same place, informal channels of communication (aided by proximity) help plug the gaps. But in an Offshoring paradigm, such gaps can have disastrous consequences. Rather than seeing this gap as "reduced manageability" or as obstacle, **it is very important to use the Offshoring exercise as an opportunity to bring in change; change for the better. Organizations must bring in manageability of actions as a necessary consequence of Offshoring. They should make manageability a consistently practiced act rather than seeing it as an evil to be contained or avoided.**

3.2 Enhancing Clarity

Another major stumbling block for success in Offshoring is lack of clarity. Organizations try to camouflage this issue by seeking individuals who are supposed to have every skill or knowledge required for the job, so that he or she can work without any help. They also hide this issue by claiming that the existing employee can do the work more efficiently than any outsourced resource.

Underlying all this resistance is the hard fact that process, systems, applications etc., are not neatly and comprehensively documented to do the transition to an offshore team. Progressive organizations don't accept limitations forced by incomplete documentation as a constraint - they transcend it. If they are to outsource a software application development work, then they have to document every little detail

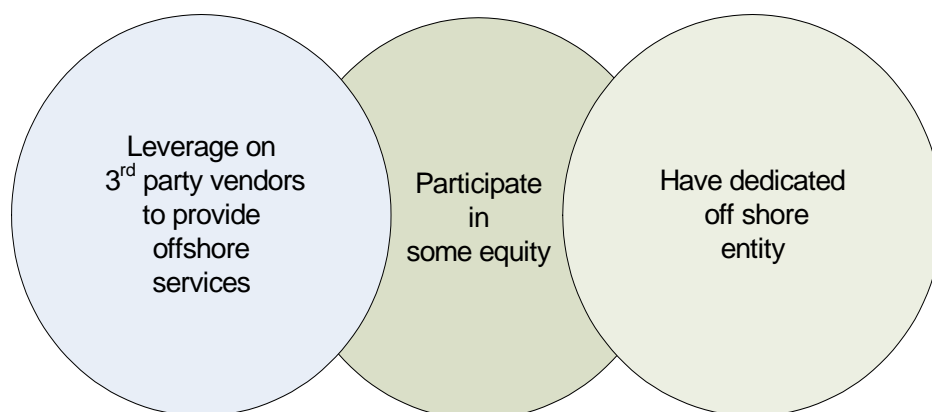
comprehensively to capture all needs (implicit or derived expectations, undocumented interface points, undocumented changes etc).

There are far too many instances when organizations have spent more money in maintaining an existing system or failed in implementing a re-engineered old system that never took off, as many implicit features were never carried on to new system. So a need to get clarity existed even before the thought of Offshoring arose. Organizations have realized that they cannot rely upon the memory of a few select individuals to know these requirements.

An Offshoring model forces the organization to be very explicit in all its requirements (expectations) and most software vendors would like to provide comprehensive documentation of what they have done to reduce their burden of supporting the system in future. **Thus the Offshoring model when practiced with care can provide an improved way of managing business by enhancing the clarity of documentation.** There are clear benefits in avoiding reliance upon the memory of a few select employees.

3.3 Bringing in the right business model of work-sharing

There have been considerable discussions on ‘core competency’, ‘conglomerate model ’ etc. Many of them directly or indirectly emphasize that organizations should outsource non-core areas and focus on improving efficiencies in core areas.



Having a dedicated offshore entity will not only bring the benefits of the offshore model, but also share the profitability of the model as practiced by Software vendors. But this has a risk - that of managing a multinational company with multiple cultures, which has traditionally been a very complex task. Buying some equity in 3rd party vendors has been attempted by few organizations as a balance between risk and rewards - but unless there are other compelling reasons, this model is a poor

compromise. Leveraging 3rd party vendors reduces the business risk of running ones own outfit and provides alternative choices of vendors. But if one is outsourcing parts of core business processes, then such a model is fraught with dangers of uncontrolled exposure.

Whichever model is chosen, there is no doubt that Offshoring brings in significant clarity to the business model of any organization on what core functions are and what non-core activities are. It brings clarity in terms of a) assessing Offshore potential b) defining the governance mechanisms and rules of engagement and c) providing visibility of outsourced work into the parent organization. Thus **Offshoring process brings in an effective model of work sharing where competitive advantage can be built by leveraging a 3rd party's knowledge and skills.**

3.4 Increasing Maturity of Offshore Model

Over the last decade, the Offshore model has matured to a great extent with software vendors. Many vendors have sensitized their team to different expectations, culture, work timings, and work methods of different countries. But the same cannot be said of organizations that outsource work to these vendors. Typical offshore working model can be classified as,

- Extended Team Approach
- Switch & Mix Approach and
- Hand Shake Approach

3.4.1 Extended Team Approach

The approach assumes a senior person like a Business Analyst or Project Lead onsite, to engage in all user / IT level discussions and help the offshore team work effectively. Depending on size of organization, the Business Analyst/Project Lead may be assisted by a small team working onsite. There is a larger Offshore team. The Customer organization works with the onsite team as if it is their extended team, and this team takes care of getting work done from the offshore team. This approach works when:

- The User need is still latent - calls for constant exploration with users / IT team of the customer organization
- The customer has either limited information or is not sure of completeness of documentation
- The developed application has several interface points with on site applications requiring constant discussions/ interactions / check points

- Customer wishes not to get into details or time zone differences or cultural or communication issues of offshore team.

3.4.2 Switch & Mix Approach

The approach involves carrying out some phases of the software development life cycle onsite (e.g., Business Analysis, Implementation) and others offshore (e.g., Detailed Design, Coding). During some phases, we can mix both onsite and offshore work. For example, when the UAT team is onsite for training, running and version implementation, an offshore team can work on defect fixes and developing upgrades.

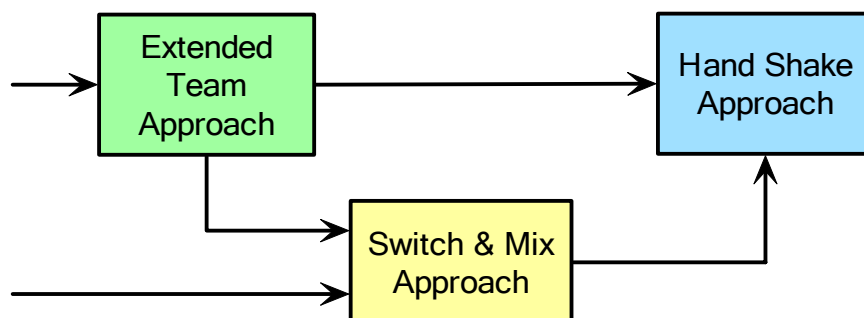
This approach has the following characteristics:

- This approach assumes that the decision to locate onsite or offshore is decided by work on hand at that instant of time.
- Efficiency is good if overall project size is medium to large (above 20 man months of effort or elapsed time above 3 calendar months)
- Cost control is an objective
- This approach can accommodate changes, but not of a 'trial & error' kind.

3.4.3 Hand Shake Approach

In this approach, the offshore team works off well-documented specifications and onsite customer team works on providing specifications and executing the implementation plan. This approach

- Represents a very matured stage of Offshore model
- Assumes that all specifications are well documented and will be complete by customer team
- Is suitable when processes are tightly administered
- Works best when interface issues are minimal due to tight process control or complete documentation or both
- Is very successful when the Offshore team has good customer specific business knowledge.



3.4.4 Creating a matured offshore model

We can work from either an extended team approach or from a switch & mix approach to assess and experience initial success, before moving onto more matured approaches. Taking small steps initially ensures early success and through learning makes the model work consistently, as the model improves with processes understanding and information exchange.

4. Summary

Summarizing, the Offshoring exercise can provide a large scope for bringing excellence into any organization. It should not be seen as an exercise only to 'reduce cost' or 'overcome shortage of skilled resources'. Offshoring provides a few benefits as outlined in this paper and as summarized below:

- Offshoring provides a platform to ensure that manageability becomes a consistently practiced act in the organization
- Offshoring model when practiced with care can improve the clarity of documentation that helps manage the business, thus reducing over dependence on few select employees.
- Offshoring processes bring in an effective model of work-sharing where competitive advantage can be built by leveraging a 3rd party's knowledge and skills.
- Offshoring processes can help organizations mature in terms of work methods by constantly improving upon their processes of work-sharing.