



Unlocking The Full Potential Of Offshore Outsourcing Contracts



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Positioning Statement

Helped by rapid technological advancements and increasing Globalization, the offshore outsourcing industry has grown by leaps and bounds over the last two decades. Consistent double-digit growth rates achieved by the industry provides hard evidence about the effectiveness of offshore outsourcing and its inherent ability to maximize cost savings, quality and efficiency. Most of the large multinationals and a significant percentage of SMEs are now regular customers, which has made it easier for industry watchdogs to confer the title of an established industry onto offshore outsourcing.

However, just like any other industry, offshore outsourcing too has some basic problems and issues. The concept and the developed framework does not have major flaws, but since there have been cases where offshore outsourcing projects have failed to achieve desired results, it is necessary that businesses take adequate precautions while outsourcing their non-core processes.

Based on a detailed analysis of both successful and failed offshore outsourcing projects, this white paper aims to identify critical factors that define success along with those that have the inherent potential to create roadblocks and bottlenecks. By doing so, it will make it easier for businesses to make the right decisions and allow them to unlock the full potential of proposed offshore outsourcing projects.

Introduction

The success to failure ratio of offshore outsourcing projects is currently 7:3, a figure that leaves a lot to be desired. It is indicative of the fact that opportunities coexist with potential failures and that success is not always guaranteed. The situation may be improving, but since the stakes are often high, businesses just cannot afford to risk it all. It necessitates that businesses take proactive steps, especially if they want to avoid pitfalls and ensure that their overseas outsourcing contracts perform in the desired manner. Here are some critical pointers that will help businesses derive maximum returns from their offshore outsourcing projects.

1. Cultural Awareness (Or The Lack Of It)

While English proficiency was never a problem, cultural differences always have the potential to create bottlenecks in offshore outsourcing projects. Instances of cultural differences creating roadblocks have been witnessed more in projects that were outsourced without proper planning and where not much effort was put into learning from the mistakes of others. What went wrong in most of these projects was that critical outsourcing decisions were made in a hurry, mostly as a quick-fix for reducing operational costs, without factoring in variables such as cultural differences. In most cases, it was either the inability of the business to clearly define desired goals and objectives or it was the outsourcing services provider failing to understand them.

To ensure that outsourcing projects do not get adversely affected by cultural issues, both businesses and outsourcing service providers need to work together to sort them out from the very beginning. Cultural awareness programs can be launched at both ends, so as to allow the stakeholders to better understand each other and develop a common understanding of prescribed goals and objectives. Employee sharing programs, i.e. offshore staff coming to work at onshore locations and vice versa, can also help greatly in fixing cultural problems and issues.

2. Dedicated Sponsors & Strong Management Support

All offshore outsourcing projects require dedicated sponsors and top-management support for them to be successful. When these are absent, it hampers the decision making process and often leads to delayed project implementations and increased operational costs. Timely execution is vitally necessary for ensuring the success of offshore outsourcing projects, something that can only be achieved when there is a strong management and sponsorship supporting the decision making process.

Dedicated sponsors and strong management support should be made available at both onshore and offshore locations to help speed up project implementations and iron out bugs and issues that may appear during the implementations. Depending on the type and size of the proposed offshore outsourcing project, sponsorship and management support can either be provided through a one-member unit or a dedicated team comprising senior members from functional departments.

3. Operational Framework

Operational framework refers to the prescribed rules, techniques, strategies and policies that need to be adhered to during project implementations. In failed offshore outsourcing projects, it has often been noticed that either the operational framework was not properly defined or the outsourcing services provider had failed to implement it in the desired manner. In both cases, the quality and efficiency of outsourced processes was compromised, leading to financial losses for the client.

Defining the operational framework may be a bit difficult, but since it is critical to the success of outsourced projects, businesses need to make that a priority. Involving the outsourcing service provider while designing the operational framework can help create a set of rules, techniques, strategies and policies that are not only appropriate for the proposed offshore outsourcing project, but are also sustainable.

4. Operational Compliance

In many of the failed offshore outsourcing projects, it has been noticed that operational procedures that looked good on paper, failed to achieve the desired results in the real world. In most cases, it was either an inappropriate selection of operational procedures or use of a completely new framework that was never tested before. There have also been cases where defined operational procedures have ended up being too complicated, making it difficult for the outsourcing services provider to successfully implement them in the real world.

To avoid such negative fallout, businesses need to test operational compliance before initiating the proposed offshore outsourcing project. Starting with small pilot projects is a good way to test the operational compliance of proposed offshore outsourcing projects. If the pilot project succeeds, it will pave the way for full-scale implementations whereas if it fails, it will help limit the potential losses that could have occurred in case the project was implemented without checking its operational compliance.

5. Legal Help

Not getting legal help severely restricts the ability of businesses to get the desired results from their offshore outsourcing projects. Service Level Agreements (SLAs) need to be properly defined, something that can only be done when legal services are hired. A badly designed SLA will likely have loopholes that can easily be exploited for individual gains and in the worst case scenario, can also result in non-compliance with defined service and performance metrics.

To avoid complications, all issues need to be settled at the negotiations table itself. Getting legal help while negotiating terms and conditions with the outsourcing service provider will tilt the balance in favor of the client and lead to the creation of a favorable SLA. When a favorable SLA is designed, it automatically eliminates chances of complacency on part of the service provider, thereby allowing businesses to derive maximum benefits from their proposed offshore outsourcing projects.

6. Quality Assurance

Reducing operational costs may be the main purpose of most offshore outsourcing projects, but that does not imply that other desirables such as quality can be compromised with. An analysis of failed offshore outsourcing projects reveals many instances where projects were scrapped even when they were performing quite well on the cost index. Reduced customer satisfaction levels due to sub-par outsourcing services was identified as the main culprit in most of these cases.

For ensuring quality, businesses need to define Key Performance Indicators (KPIs) and include them formally in the outsourcing contract. Efforts should also be made to adhere to international quality

standards such as ISO9000, Six Sigma, CMM etc. This will help to ensure that the project is not compromised due to sub-par outsourcing services.

7. Performance Based Contracts

Even performance based outsourcing contracts have failed to deliver sometimes, but in most cases, it's the lack of it that has created problems. In the absence of a performance based system, when a fixed sum is assured, it naturally breeds complacency on the part of the outsourcing service provider. On the other hand, a performance based offshore outsourcing contract provides the right motivation, as is necessary for putting in the effort required for maximizing returns.

However, performance based contracts need to have an outer sugary coating so that outsourcing services providers do not feel too overburdened and stressed. This can be done by providing special incentives and bonuses for achieving specific targets. Basically, the "carrots and sticks" approach should be used while designing performance based offshore outsourcing contracts

8. Period Of Contract

Some experts may opine that having long-term outsourcing contracts is favorable for businesses, but if past records are to be believed, the reality, it appears, is just the opposite. A long-term outsourcing contract does allow the stakeholders to develop a sense of common belonging, which aids cooperation, but that's not enough because such benefits are often negated by other adverse affects such as monotony and complacency.

Short-term outsourcing contracts, preferably ranging between 6 to 18 months, work better because the onus then is on the outsourcing service provider to keep up the good work in order to secure future contracts from the same client. In short-term contracts, the client always has the advantage and it is inevitable that he will move on and choose a different service provider if he is not satisfied with the exiting provider. This is enough to get the desired performance from the outsourcing service provider.

Conclusion

Every offshore outsourcing project has different needs and requirements. As such, it is necessary that customization be introduced while devising strategies meant for unlocking the full potential of overseas outsourcing contracts. A common framework that works for all outsourcing contracts is highly desirable, but achieving something like that is difficult in the real world and needs to be avoided. Businesses should instead concentrate on identifying problem areas for each individual project and devising appropriate solutions for each. For best results, all efforts and decisions should target the primary objective, i.e. ensuring overseas outsourcing contracts perform, just as planned.