



# Best Practices in Offshore Outsourcing

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## Strategies for Transition, Attrition, Communications, and Bridging the Cultural Gap

By Kathleen Goolsby

Outsourcing Center studied the risk-mitigation efforts of 40 offshore outsourcing relationships participating in the 2007 Outsourcing Excellence Awards program. This paper discusses the best practice strategies customers put in place to ensure greater return on investment by mitigating risks in the areas of transition, work-force attrition, communications, and cultural gaps.

## Introduction

The study involved outsourcing customers in the following industries:

- Aviation
- Financial institutions
- Health care / pharmaceutical
- Logistics
- Manufacturing
- Oil and gas
- Software development
- Telecommunications
- Travel and hospitality

Offshore delivery of services is now a mainstream strategy in outsourcing. But it still carries significant risks, primarily in the following four areas:

- Transition phase
- Attrition in service provider's human resources
- Communications
- Cultural gaps

The risks can impact the return on investment or even lead to a failed relationship.

Outsourcing Center studied 40 outsourcing offshore relationships in which service providers performed the work in the outsourced business process for more than one year and the offshore delivery strategy was still in effect during 2007. The 40 relationships represent nearly half of the 86 relationships nominated for and studied in Outsourcing Center's 2007 Outsourcing Excellence Awards program ([www.outsourcing-awards.com](http://www.outsourcing-awards.com)).

The awards program recognized the relationships for excellence in their partnering approach, as well as how the parties achieved mutually beneficial objectives and collaborated to overcome challenges. The relationships also operated with best practices in delivering quantifiable business improvements.

Service providers' offshore delivery centers for services in the relationships in the study were located as follows:

- 29 in India
- Four in Russia
- Three in China
- One in Singapore
- One in Philippines
- One in Mexico
- One in Costa Rica

The 40 relationships in the study include outsourcing customers in the following industries: financial institutions, oil and gas, aviation, travel and hospitality, logistics, manufacturing, telecommunications, health care / pharmaceutical, and software development.

The service providers' offshore delivery centers for services in the study were located in seven countries, as follows: 29 providers in India; four providers in Russia; three providers in China; and one provider in each of Singapore, Philippines, Mexico, and Costa Rica.

The study found that more than half (23) of the customers in the 40 relationships developed and used best-practice strategies to mitigate offshore outsourcing risks in the four risk areas listed above. This whitepaper presents findings from the 40 relationships and best practices from 23 of those relationships.

Outsourcing Center interviewed each of the customers in the 40 relationships in the study. The study did not place a limit on the number of best-practice risk-mitigation strategies that each participant could reveal. A breakdown of the number of best practices cited in each risk area is as follows:

- 25 percent of respondents' best practices – transition phase
- 35 percent of respondents' best practices – attrition
- 15 percent of respondents' best practices – communications
- 28 percent of respondents' best practices – bridging cultural gaps

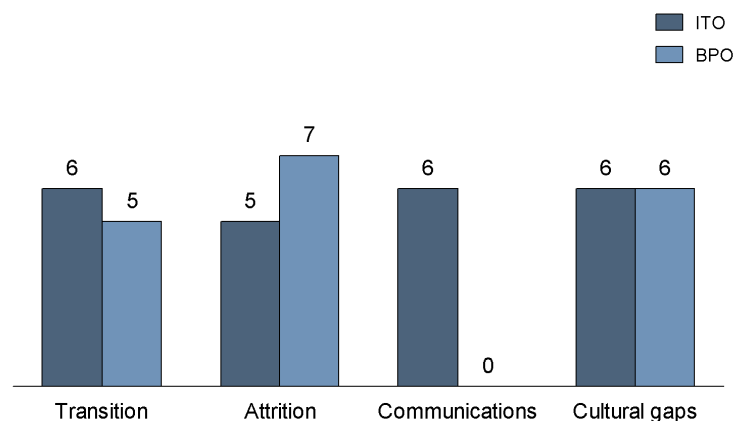
Within this breakdown, it is significant to note the following:

1. The majority of participants cited best practices dealing with attrition more than any other area of risk. However, as noted earlier, a large majority of the service providers' offshore delivery centers in the study were located in India, where attrition is a significantly higher risk than in the other countries in the study.
2. Hence, if we disregard the significance of the number of best practices in the area of attrition, bridging cultural gaps is the area in which customers perceived a higher number of risks and consequently developed more risk-mitigation best practices.
3. As illustrated in **Exhibit 1**, study participants in ITO and BPO deals placed an equal emphasis on strategies for bridging the cultural gaps.
4. As illustrated in **Exhibit 1**, participants in ITO deals developed as many risk-mitigation best practices in the area of communications as in bridging the cultural gap, considering them of equal risk. The study found that in each of these ITO deals with best practices for communications, the outsourced process was application development (AD) or application development and maintenance (ADM).
5. As **Exhibit 1** evidences, no participants in BPO deals developed risk-mitigation best practices specifically in the area of communications. However, the study found that most BPO participants included communications strategies in their best practices in the areas of transition or bridging cultural gaps.

## EXHIBIT 1

ITO versus BPO breakdown of customers' best practices per areas of risk in offshore outsourcing

Source: Outsourcing Center



## Transition Phase Challenges and Best Practices

Some of the transition-phase challenges the 40 customers encountered were the same types of challenges encountered in any outsourcing transition where offshore services are not involved. These challenges include:

- 13 percent underestimated the number of human resources that would be necessary to perform the outsourced process
- 15 percent experienced issues with technology implementation or build

However, several encountered transition-phase challenges specifically tied to offshoring, including:

- 13 percent of customers had ineffective change management for process and procedural changes due to sending the work offshore
- Eight percent underestimated the amount of time necessary for transition
- Eight percent experienced communication problems
- Eight percent had knowledge transfer issues
- Five percent had cultural gap challenges
- Three percent did not adequately define the exact skills that would be necessary in the provider's resources to meet the customer's needs

In contrast, of the 23 relationships that developed and used best practices for offshore risk mitigation, nearly one-half (43 percent) used strategies up front to mitigate risks and consequently did not encounter transition challenges.

Their strategies and best practices include the following:

**Up-front training of provider's workforce.** Most of the customers described their training best practices as a combination of initial training at the provider's offshore location followed by additional training at the customer's U.S. location.

The customer and provider usually jointly selected a team of the provider's workforce who would be key to success. The customer then trained these individuals in the United States for periods ranging from two weeks to three months after the initial training at the offshore location. At the customer's U.S. location, the provider's individuals did real work side by side with a trainer or another selected individual from the customer's workforce.

In addition, some remained in the United States for the first month of the actual support phase.

One customer mentioned videotaped training sessions so they would be available for new people joining the provider's team later on.

In instances where training at the offshore location was not followed up with additional U.S. training, customers established weekly phone conferences with the offshore team to review new issues and questions as they arose after the initial training period.

A key to success in training cited by one customer is that the customer made sure its people who were responsible for the training had very positive attitudes and were motivated to make the offshore relationship succeed.

**Mentors.** This strategy involves identifying one of the trainers to be a mentor in the United States after the initial training period offshore. The offshore team can call or e-mail the mentor on a daily basis, and the mentors made an effort to stay very involved with the offshore associates.

A method of operating this program is for both the mentor and offshore person to look at the problem or issue the provider's employee asks about and then have the offshore person suggest an approach for going forward. The mentor then either validates that approach or suggests a different approach for the offshore associate to consider.

A key to success in this program is that the discussions need to be from a give-and-take mind-set, not a lecture/correct mind-set. Part of the benefit of a mentor program is relationship building.

**Documentation.** Another customer implemented a strategy focused on developing a very detailed document with procedures. The document contained information equivalent to an in-house situation where someone could get up and go ask someone else the answer to a question. The customer explained, "We wanted them to have as much information available to them as possible so that they could do the work the first time they touched it, as opposed to putting it on hold and waiting to get a response back from us."

Another best practice mentioned by several of the customers was to document each issue that arose during training along with how the trainer addressed it.

**Train the customer.** Two customers responded that their best practices included training their own managers in how to manage offshore outsourcing relationships.

Two other customers selected people from their business units to attend classes on how to be more clear and concise in expectations as well as roles and responsibilities. In addition, a customer with a service provider in Russia sent two of its executives to Russia to learn the Russian language.

## Attrition Best Practices

Of the 23 customers that developed best-practice risk-mitigation offshoring strategies, 61 percent focused on the risk of attrition among the provider's staff. Several commented that none or almost none of the original resources remained two years into their deal.

All agreed that managing resource attrition is a significant challenge and that it involves a bundle of strategies aimed at ensuring employee satisfaction. Most of the customers developed and implemented these strategies jointly with the provider.

Examples of their attrition-mitigation strategies include:

### Succession planning

- Ensure cross-training (or shadow/buffer resources) so that when one team member leaves, a suitable replacement is immediately ready to take over; this strategy not only helps with attrition but also at times when it is necessary to ramp up capacity quickly
- Ensure the provider has senior associates available to coach/mentor the replacement employees beyond initial training
- Make sure the ramp-up processes and procedures for new employees facilitate quick induction

### Incentives

- Work with the provider to move individuals into different jobs from time to time to keep their interest
- Allow key individuals to have a choice in the projects that they work on
- Provide travel to the United States, Canada, and United Kingdom as an incentive
- Pay more to ensure key people get salary raises
- Give the employees new titles that reflect their value to the customer
- Pay an annual loyalty bonus

### Miscellaneous

- Choose a provider that has an attractive career growth path for its workforce
- Create a customer-company-centric environment for the provider's workforce; decorate the area with logos, posters, etc. to create a culture and atmosphere that enables the staff to feel they are part of the customer organization
- Treat the provider's workforce as extended staff and part of the team, not as vendors; take a partnering approach and explain the big-picture purpose of the projects they are working on and how they are providing value for the customer's end customers
- Pay attention to accomplishments among the workforce and recognize their efforts publicly
- In areas where the attrition rates are lower on night shifts or on day shifts, convert some workers to the shift with lower attrition rates

## Communication Challenges and Best Practices

Just over one-fourth (26 percent) of the study's relationships developed and used best practices to mitigate risks in the area of communications. The study found that all of these were in application development (or application development and maintenance) deals and involved language issues that created project management challenges.

In each case where a difference in languages was the issue, the study participants stated the best-practice strategy was to co-locate one or more individuals (in some cases, up to four) from the provider's workforce at the customer's onshore location in the United States. The co-location strategy eliminated bottlenecks, misunderstandings, and expectation gaps caused by language issues.

Qualifications for these individuals include:

- Speaks excellent English with the customer's workforce but communicates back to the provider's point people in their native language
- Ability to troubleshoot a technical document (AD process)
- Senior technical design person (AD process)

In some cases, the co-located person from the provider's team was actually part of the workforce doing some of the development work in addition to being the point person for communications.

Some study participants commented that it took several candidates for these positions before they found the people who were a perfect fit. Two participants commented that they worked with their provider to jointly determine requirements and qualifications for such positions; and they jointly selected the candidates.

In a few cases where language was not as much of an issue but communication challenges arose because of time zone differences, customers varied this strategy by locating a U.S. individual onsite at the provider's offshore location.

## Best Practices in Bridging Cultural Gaps

Among the 23 study participants that developed best-practice risk-mitigation strategies for bridging the cultural gap in offshore outsourcing relationships, 48 percent determined that frequent customer trips to the provider's offshore location is the best practice.

The primary objective of such trips was to understand the culture of the provider's country. This involved not only frequent trips but extended stays. Among the study participants, frequency of trips ranged from once a year, to twice a year, to once a quarter, to six times a year. Duration of the visits ranged from two weeks to three months. In a few cases, the parties alternated these trips with the provider's executives traveling to the customer's U.S. location.

The customer executives selected for trips to offshore locations ranged from the CEO to the President to the individual managing the day-to-day interaction between the customer and provider. In most cases, at least two and sometimes four individuals from the customer's team traveled together on each trip.

A secondary objective of these trips was the customer's presence at the provider's location, demonstrating that the provider's staff was important to the customer's business and building the relationship at the workforce level.

Celebrations – recognizing victories with t-shirts or other gifts, as well as a wedding or the birth of an employee's baby – were also key activities of these trips. Sitting and talking with the provider's workforce and recognizing their dedication to the project was also a key activity cited by some participants. Some of the trips resulted in customers understanding what types of bonus incentives would be attractive to the provider's workforce. During one such trip, one study participant whose provider is located in India announced a performance-based incentive program selecting the "employee of the quarter." The reward each quarter was a flight to the UK where many Indian employees have relatives and friends.



## Additional Risk-Mitigation Best Practices

In addition to deploying the strategies in the four risk areas already discussed, the study found participants used the following risk-mitigation strategies:

1. Process/function expertise was the number-one provider-selection criterion for offshore deals
2. Several participants stated they increased their comfort level with offshore outsourcing risks by selecting a “large and well-established” provider
3. 50 percent of the 40 offshore relationships (both ITO and BPO) in the study have contracts for five or fewer years

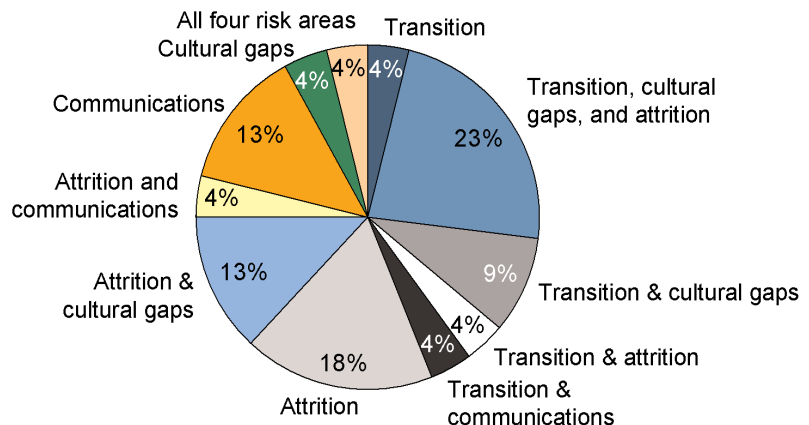
Finally, among the four primary risk areas discussed in this paper, the study found that 70 percent of respondents developed and used best practices for risk mitigation in one risk area or in two risk areas. 29 percent developed and used risk-mitigation best practices in three risk areas. Only one respondent developed and used risk-mitigation best practices in all four risk areas.

**Exhibit 2** displays a breakdown of participants’ development and use of best practices in one, two, three, or all four risk areas.

### EXHIBIT 2

Risk areas where customers developed best practices in offshore outsourcing

Source: Outsourcing Center





## About Outsourcing Center

Outsourcing Center ([www.outsourcing-center.com](http://www.outsourcing-center.com)) is the world's most prominent Internet portal for authoritative information on methods for creating and sustaining a competitive advantage; improving organizational performance; focusing resources on core competencies while obtaining resources to improve important, non-core business processes; ensuring companies get the best return on their IT investments; and capturing value in business solutions that make an enterprise-wide strategic impact.

The Center provides a wealth of free research, case studies, database directories, market intelligence, and ever-expanding content targeted to the information organizational decision-makers seek on emerging trends and best practices in outsourcing as a strategic business solution. The Center also publishes the monthly Outsourcing Journal with more than 48,000 subscribers and presents the annual Outsourcing Excellence Awards ([www.outsourcing-awards.com](http://www.outsourcing-awards.com)).

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