



Why Offshore Outsourcing Projects Fail

White Paper by Scott Noble, Director, Global Sourcing Insights LLC
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We have all heard of outsourcing projects, particularly those that involve offshore, that have failed. Some recent examples of failed offshore outsourcing have made headlines and become hotly debated among opponents and supporters of outsourcing. In this paper, we will examine a few of the reasons why offshore outsourcing projects fail.

Information Technology (IT) projects can fail for any number of reasons and in most cases identifying one reason, or even a small group of reasons, for failure is impossible. Typically, there are a number of contributing factors, large and small, that cumulatively result in a project being abandoned or failing to meet its intended goals and objectives. Offshore outsourcing IT projects can fail for many of the same reasons as any other IT project: poor planning, inaccurate estimates, ineffective management, loosely defined requirements or objectives, etc. But offshore outsourcing projects place an even greater premium on effective planning and management and are vulnerable to additional risks as well. These risks can include:

- Barriers to Communication
- Complexity of Infrastructure
- Division of Labor
- Cultural Factors

Barriers to Communication

As we have all come to know, communication is much more than just language. When dealing with a globally dispersed team, communication becomes rapidly more complex with special challenges of additional locations, time zones, date lines, and simply distance. All of these factors, if not managed effectively, can quickly result in an inability to communicate the right things to the right people at the right time. It is important to establish effective communications prior to starting an offshore outsourcing project. This means:

- Identifying effective modes of communication – for each item in your communications plan, it is important to answer the question; **How** should this communication take place? Are emails sufficient? Conference calls? Video conferencing? Not all communications need be high-tech to be effective.
- Establishing the communications infrastructure – ease of communication is paramount. To facilitate communication among team members use 800 numbers; direct dial extensions; invest in high-capacity, high quality digital data/communications lines.
- Creating vehicles/mechanisms for communication – this can include everything from status reports to newsletters and Intranets. The goal is to create sufficient mechanisms to increase the flow of ideas and information among the team.

Complexity of Infrastructure

Another aspect of offshore outsourcing projects that can require additional consideration beyond that normally given to onsite in-house projects is infrastructure. The primary concern here is infrastructure in the broad sense, i.e. “the underlying foundation or basic framework”¹ of the project. This can include the regulatory and legal environment and location factors as well as the more common issues of facilities, hardware, etc.

Beyond the communications infrastructure, which we touched on briefly in the Barriers to Communications section above, the offshore outsourced project will require additional planning and management to resolve issues surrounding privacy, licensing, intellectual property rights, trade agreements, etc. The goal is to ensure that all project team members have the appropriate tools and **access** to accomplish their work. For example, it is important to review existing license agreements to determine whether access to required hardware and software can be extended to personnel outside the organization and/or at other locations – particularly if those locations are outside the home country. Further, recent regulatory changes, particularly in the health and financial industries, have the potential to affect how work is allocated and should be examined.

Division of Labor

In an offshore outsourced project, it is vitally important to answer the question: Where and by whom will specific work be most efficiently and effectively accomplished? This is a **very** fundamental question that is often overlooked and is more than just a concern over the cost of labor hours. For example, you may be able to offshore outsource a particular job at one-half or one-third the cost, but if by doing so you lose an important customer due decreased responsiveness then nothing has been gained and, potentially, the long-term effect of the loss can easily outweigh the short-term cost benefit.

Each activity and type of work should be carefully evaluated to determine real comparative advantages attributable to groups of personnel at each location and affected organization. In my experience, too many offshore outsourced projects are simply playing a game of labor rate arbitrage when allocating work and this can have serious negative effects on the probability of project success. Examining the inherent strengths and weaknesses of teams from various locations will provide a more clearly defined, and less risky, approach to work allocation.

Cultural Factors

By far, intrinsic cultural differences are one of the most commonly overlooked and misunderstood barriers to effective offshore outsourcing. Aside from the commonplace, and more immediately understood, challenges of language differences and work schedules, cultural factors can be very subtle and insidious. There can be very different attitudes and approaches to work and work relationships in different countries and regions around the world.

¹ Webster’s Dictionary

For example, in some Latin cultures, work is not the defining entity in one's life to the extent that we commonly find in the United States. This can lead to a more casual approach to schedules that can exasperate U.S. business people, causing them to think that these people are not as industrious or do not care about their business relationships. Typically this is untrue – these people are committed, it's just that in their culture they believe that many things are potentially more important or urgent than making sure that a meeting starts promptly at a given time. People of these cultures tend to find American preoccupation with clock-watching and strict adherence to schedules to be obsessive.

In my extensive experience with personnel from some Asian cultures, I have found that a fundamental deference to, and respect for, authority figures can cause some personnel from these cultures to not question work assignments in the same way that we have come to expect from U.S. employees. Whereas U.S. personnel will commonly ask questions and make recommendations as to better or more effective ways of achieving results, personnel from certain Asian cultures will have a tendency to simply go and do the work, deferring to the judgment of senior personnel. When working with team members from such cultures, it is very important to realize that you will probably get exactly what you ask for, without question, even if what you ask for isn't the best possible solution. This situation places a premium on: a) being very certain that your requirements, specifications, etc. are very well defined and thoroughly vetted, and b) actively cultivating lines of communications with these personnel that will entice and facilitate feedback.

Conclusion

In my experience, the most common unique causes of failed offshore-outsourced IT projects (beyond causes that are typical to any IT project) are related to unique cultural elements that are commonly ignored or misunderstood combined with the failure or inability of management to fully consider the broad range of influencing factors that are peculiar to offshore outsourcing. Some of these influencing factors have been described in previous sections of this document, but there can be many special considerations unique to each individual project. Without the benefit of significant experience in identifying, planning for, and managing these issues, the typical IT Manager faces an uphill struggle.

About the Author

Scott Noble has over 20 years information technology experience including over 15 years of outsourcing and 10 years offshore outsourcing experience. Scott has held a variety of leadership and consulting positions with technology firms Syntel, EDS (Electronic Data Systems), and Texas Instruments.

Scott spent over eight years with EDS, the company that pioneered Information Technology outsourcing and led their Plano-based software estimating center. In the last 10 years, Scott has worked with many Fortune 500 and Global 2000 firms developing and implementing the processes which have come to define how global outsourcing is performed. During this time, Scott saw the need to integrate enhanced knowledge regarding people, cultures, political environments and tax and regulatory regimes that affect global business and offshore outsourcing. Scott was accepted into an Executive program in International Business at the University of Texas and holds a Master's degree in this field of study.

About Global Sourcing Insights LLC

Global Sourcing Insights (GSI) advises companies in using offshore outsourcing as a part of their business strategy. GSI has in-depth expertise in offshore outsourcing and has assisted many Fortune 500 companies in analyzing the feasibility of outsourcing their IT application portfolio.

GSI becomes involved with companies that are contemplating an outsourcing initiative for maintenance and development of their information technology systems. Their Application Portfolio Feasibility Assessment is a quantitative process to identify those applications that would benefit from offshore outsourcing. They also provide advice on outsourcing best practices to mitigate business and political risks.

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