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Five Offshore Practices That Pay Off

Outsourcing is still more of an art than a science. But it's now part of the corporate toolkit, and it's important to use this tool right.

From Dell Inc. to Reuters Group PLC, corporations have run into trouble as they've shifted jobs offshore. But they've persisted since the process is so critical to corporate success. Take Bank of America Corp. It attracted media attention when it laid off hundreds of information technology workers after forcing some of them to train their Indian replacements. But BofA learned from its mistake. "It caused us to make a greater commitment to [retraining] our associates and to explaining the context of changes in the marketplace," says Barbara J. Desoer, BofA's global technology, service, and fulfillment exec. Now BofA gives its workers six to eight months' notice before an offshore move, enough time to train for new assignments or to hunt for jobs.
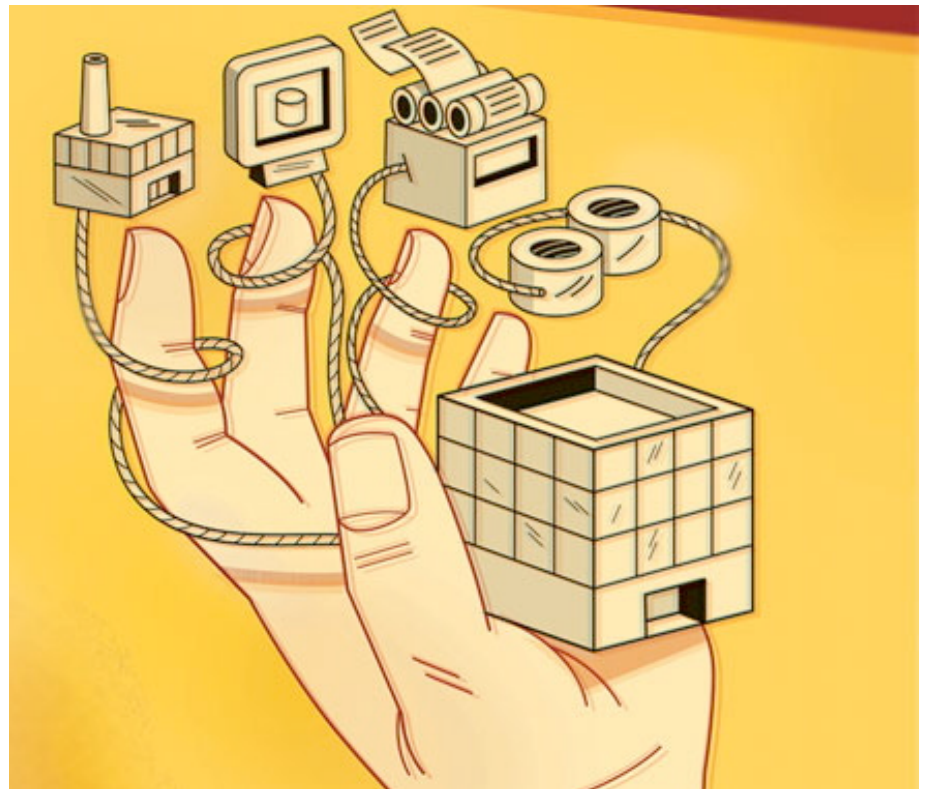
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What are the pitfalls to avoid when outsourcing? What are the best practices to follow? These questions are more pressing than ever as outsourcing turns companies inside out. "The era of lift, shift, and labor arbitrage is coming to an end," says Sanjeev Aggarwal, chief executive of IBM Daksh Business Services, Big Blue's New Delhi call center operation. "It's all about business transformation today." This playbook offers guidelines companies must keep in mind as they consider such a profound change.

By Manjeet Kripalani
With Dean Foust in Charlotte, N.C., Stanley Holmes in Seattle, and Pete Engardio in New York

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1 Go Offshore for the Right Reasons

Despite the lure of lower costs and the promise of big gains in efficiency and innovation, it may make sense not to go offshore at all. Can you boost efficiency and competitiveness by shaking up operations or improving technology at home? What's the risk of a damaging backlash from your customers or community? "Offshoring is a powerful lever, but just one [of many]" for companies aiming to stay competitive, says Ramesh Venkataraman, McKinsey & Co.'s tech partner for Asia.

Don't decide to send work offshore simply because your competitors are doing it. And don't outsource a mess! "If you have a broken process, shifting it overseas won't fix it," notes Ananda Mukerji, CEO of Bombay call center operator and researcher ICICI OneSource Ltd.

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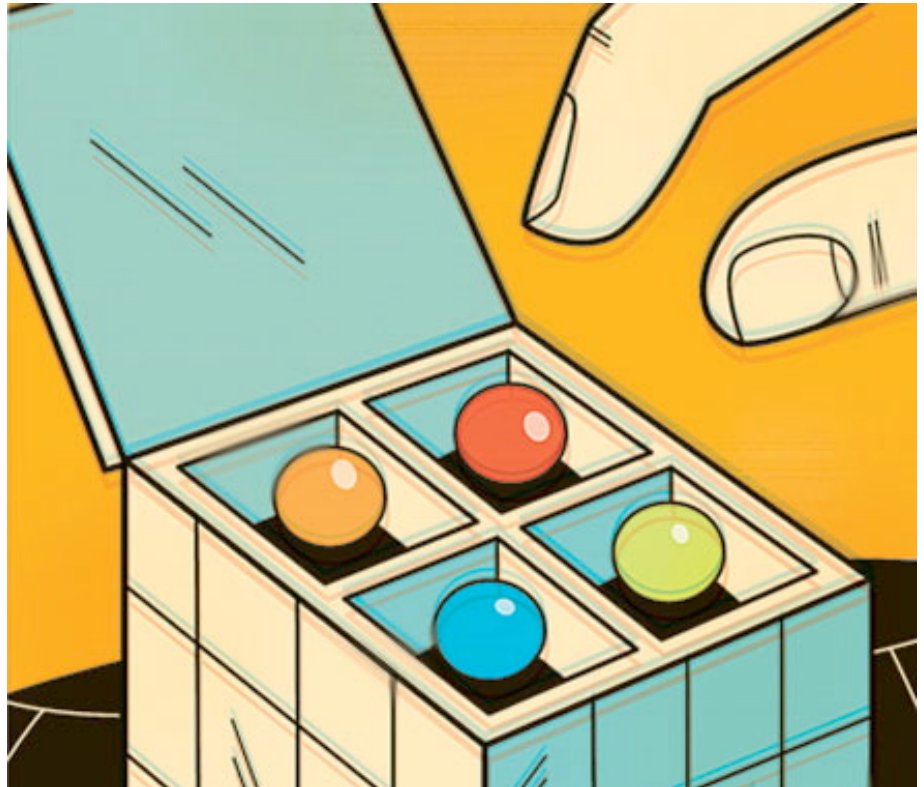## ■ PLAYBOOK: BEST-PRACTICE IDEAS

2 Choose Your Model Carefully

As you develop your strategy, weigh whether you should set up your own subsidiary offshore--known as a "captive" operation--or contract with outside specialists. The appeal of opening your own outfit is that you keep firm control of proprietary technology and processes. For that reason, Boeing Co. opened its own center in Moscow, where it employs 1,100 skilled but relatively low-cost aerospace engineers on a range of projects, including the design of titanium parts for the new 787 Dreamliner jet. Likewise, Chicago-based law firm Baker & McKenzie has its own English-speaking team in Manila that drafts documents and does market research.

One downside of captive units, warns Gartner Inc., is that they can wind up costing the head office more than it would to hire large outside outsourcers that spread overhead among numerous customers. For that reason, many companies are shooting for the best of both worlds. BofA established its own India subsidiary, yet also teamed up with Infosys Technologies and Tata Consultancy Services Ltd. to shift 30% of its it resources offshore. Since 2001, says the bank, offshoring has helped save it $100 million and, more important, improved product quality.

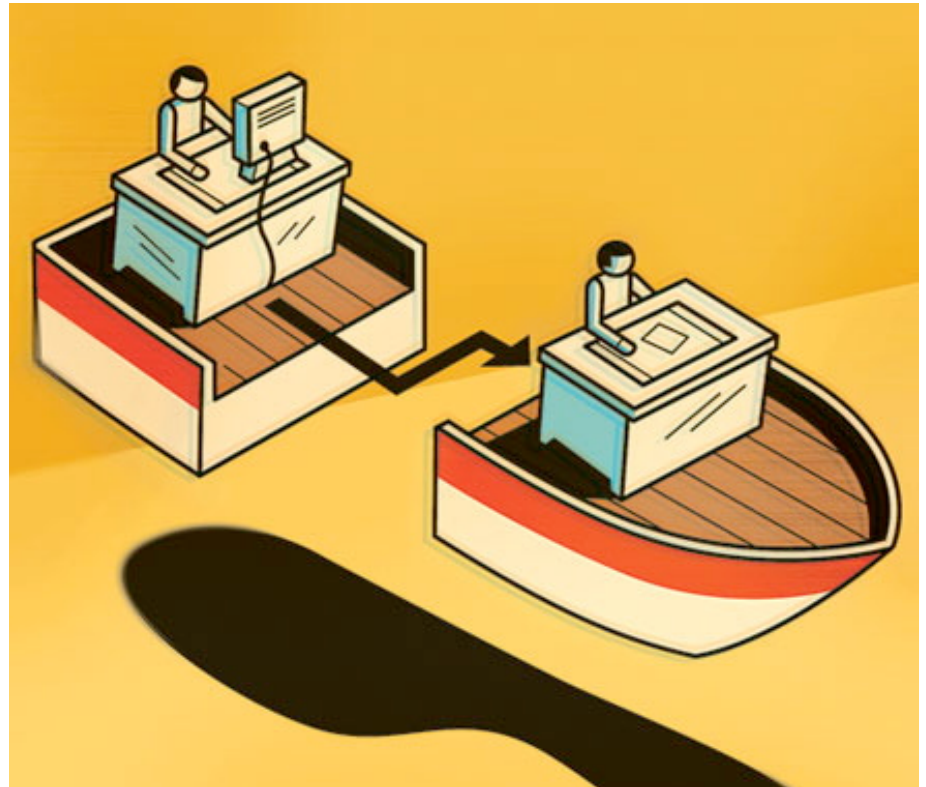ILLUSTRATIONS BY HARRY CAMPBELL

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3 Get Your People On Board

Keep in mind that employees and middle managers can make your bold move happen--or stop you in your tracks. Dutch bank ABN Amro was aware of this risk when it decided in 2004 to boost efficiency and product quality by uniting retail, investment, private banking, and asset management businesses under one technology platform, to be developed offshore. Senior executives feared resistance. "When you first approach outsourcing, it's a religious issue," says Lars Gustavsson, ABN Amro's London-based group chief information officer. "People either believe in it or they don't."

To counter potential opposition, the bank set up a full-time communications department dedicated to explaining the move to middle managers and staff. Senior executives held town hall meetings with employees and involved the unions in managing the shift. And the bank gathered together its 12 chief technology officers into a committee that made decisions by consensus about redeploying the workforce and selecting outsourcing partners. Although some 1,500 jobs will be lost, ABN Amro is helping with severance and retraining--and still expects to save more than $300 million annually starting in 2007.

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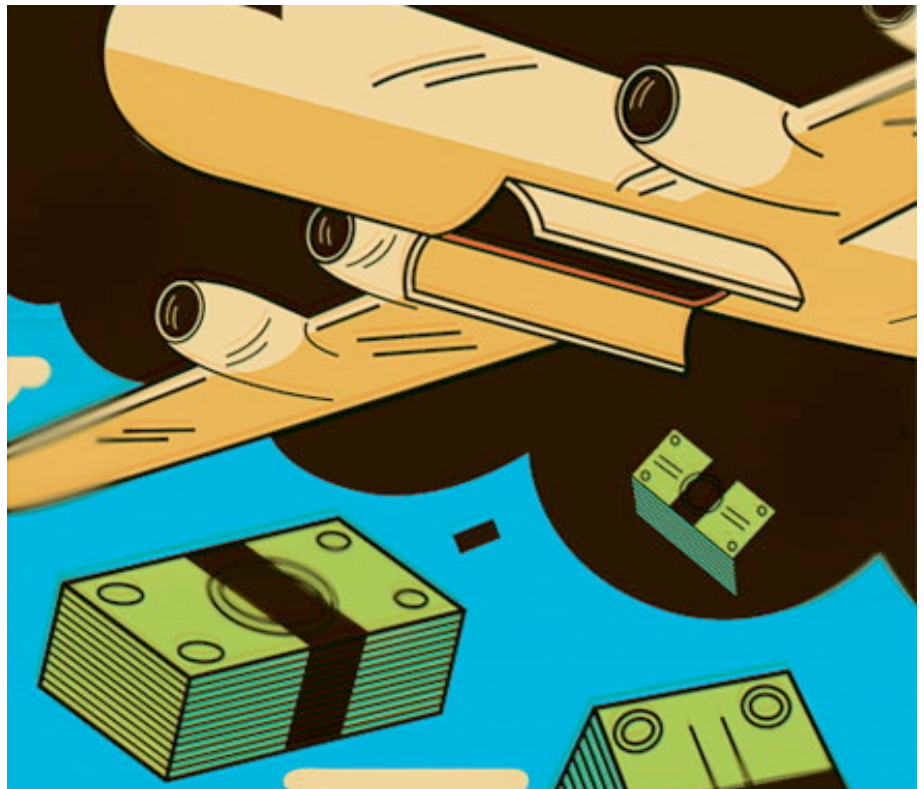## PLAYBOOK: BEST-PRACTICE IDEAS

4 Be Prepared to Invest Time and Effort

As Gartner points out, 80% of companies cite cost-cutting as the main reason for outsourcing. But you won't save as much after the initial year unless you're prepared to invest serious management time and effort. "It took a heck of a lot more involvement on the part of myself and my team than I expected," acknowledges Frank Cocuzza, chief financial officer of Penske Truck Leasing, which has shifted work on more than 30 business operations to India, Mexico, China, and Brazil since 2000.

To keep its leasing and logistics businesses humming, Penske invests heavily in teaching its contractors English language skills--not just so that call-center workers sound fluent to U.S. customers but also so that Penske's own managers can better understand them. Offshore workers also receive intensive training in Penske's business practices. And Cocuzza sends operational managers to meet with their offshore counterparts at least twice a year.

Quality control is also important once the offshore project is up and running, particularly for more complicated tasks. What's often lacking in offshore partners "is a lot of deep process knowledge, whether it's mortgage processing, insurance, or other areas," says Gartner Research Director Frances Karamouzis.

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5 Treat Your Partners As Equals

While working with offshore partners can be scary at first, outsourcing veterans agree that the gains are greater if you regard them as equals. "If you try to treat these suppliers as a body shop--telling them exactly what to do and how to do it--it does not go well," says Christopher Cartwright, CEO of the corporate and financial services division of Dutch-American publisher Wolters Kluwer.

Cartwright headed the company's pilot offshore project in 2003, when it contracted with Tata Consultancy and HCL Technologies Ltd. to develop new technology for delivering the publisher's compliance products online. "We tried to map out everything so there would be no doubt what we wanted," he recalls. "We didn't invite the partner to help us determine the best way" to make the project work, he adds. Cartwright felt his company did not get the maximum payoff from its initial project as a result. Now he ensures that his company's project managers and software architects work closely with their counterparts from India onshore for a period to organize their work efficiently.
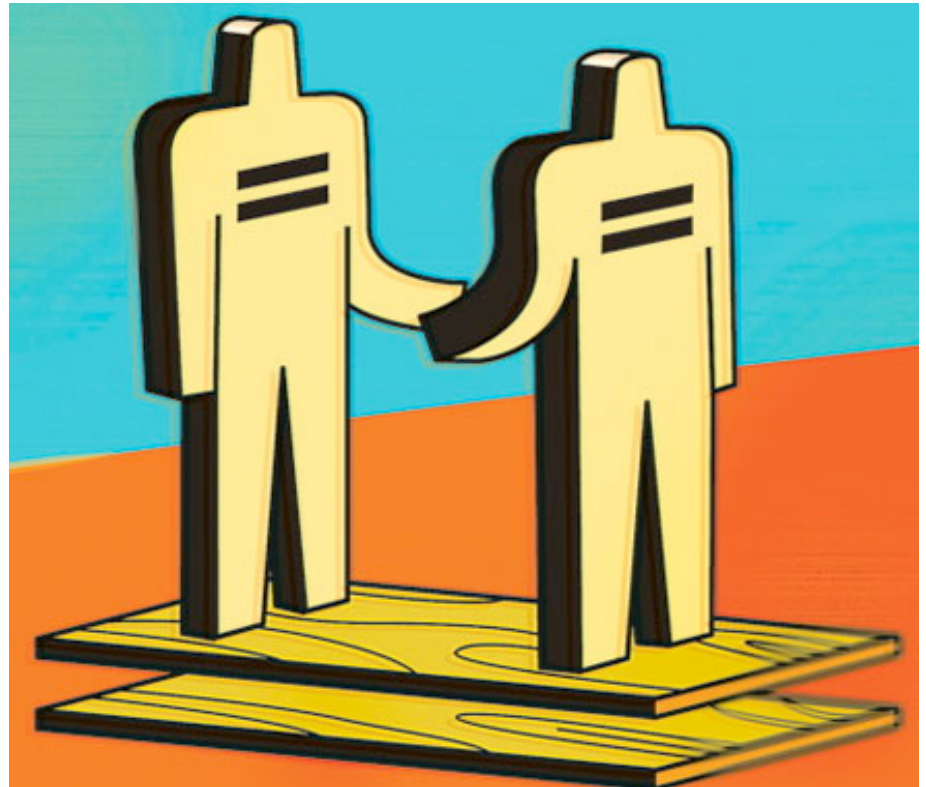
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In a very different industry, HT Capital Management Ltd., a $300 million hedge fund in Hong Kong, has teamed up with New Delhi-based Evalueserve Inc. Four financial analysts from the Indian company write research and market analysis for HT, working closely with four analysts from HT. "We make them feel part of our team," says Ophelia Tong, HT's investment director.

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