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Case Study: India—Not Every Job Translates Overseas

Outsourcing simply means hiring someone outside the company to perform tasks that could be done internally. Companies often hire the services of accounting firms, for example, to take care of financial services. Interest in outsourcing has been spurred by executives who want to focus their organization's activities on what they can do best—their core competencies. Increasingly, activities such as maintenance, security and payroll are being outsourced in order to increase the organization's flexibility, lower its overhead costs, and gain access to expertise that others may have.

Because of the slowing sales of ValiCert's Inc. security software the company began laying off Silicon Valley engineers to hire Indian workers for one-sixth of the U.S. \$200,000 salaries. However, the Indian software engineers did not fit into the organizational culture. Accustomed to working closely with veteran engineers familiar with ValiCert's products, the U.S. managers offered only vague outlines for each assignment. The less-experienced Indian engineers did not include elements in the programs that were considered standard among U.S. customers. U.S. programmers rewrote the software, delaying its release by months and caused Indian engineers to get frustrated with long silences, punctuated by rejection.

Furthermore, this very process resulted in delayed software releases and customers' complaints about the bugs with the software. As a consequence purchases were postponed and ValiCert Inc. missed its quarter financial targets, and thus the entire offshore strategy had to be questioned by the managers. The poor communication between the U.S. and the Indian development teams slowed the process further down and offset cost savings due to lower labor costs. In addition, the project teams in California and India were too disconnected and the chasm between these two facilities caused more problems. These differences, eventually, resulted in duplication of software programming, dissatisfaction among Indian engineers, missed growth opportunities, and therefore a backlash in the competitive advantage over rival software firms in the security software market.

The following points show that outsourcing is not always the panacea to all the problems: Cost and time over-runs for the project due to selection of wrong offshore outsourcing vendors that lack expertise for executing that particular offshore project, cultural mismatch with outsourcing partners, and political or other instability in outsourced country. Moreover, outsourcing raises questions about data privacy, intellectual property rights as well as legal standing and access to arbitration. Besides these risks there also exist geographical and infrastructure and operational risks. Nevertheless, offshore outsourcing can reduce IT expenditures by a great margin within few years. In the longer term, process improvements often make great impacts on both cost savings and the quality of IT services delivered.

As learned from ValiCert's experience effective outsourcing is not that easy. Successful risk management depends on diversification of sourcing. This implies load balancing between suppliers, or their facilities, in different countries, effective management of multiple teams, and dependencies on a variety of providers. Furthermore, U.S. executives' misunderstandings started right away when they looked for programmers with eight to ten years of experience. However, such "career programmers" are rare in India and most software engineers seek management jobs after four or five years. Therefore, execs should first get a basic understanding of the cultural and educational traditions and customs of potential outsourcing countries such as India or China. Another take-away from the ValiCert example is the crucial need for communication and a functional feedback system; especially when the cross-cultural differences and the management practices are as obvious as between the U.S. and India.

To conclude, managers should get to know their partners before the merger or the strategic alliance takes place! Outsourcing of huge software projects is probably not always the easiest approach to save costs. Especially with teams from different cultures working together on the same project often results in enormous backlashes. Furthermore, technology-transfer and export involves a lot of risk. Sending blue-collar jobs to India, China and other low-cost countries is much more common and does not involve such great exposure to risks. Many U.S. companies outsourced call center agents to India and trained them how to behave, act, and answer the customers' questions. Nevertheless, this process causes political discussions and raises great concerns among U.S. workers.