

Risk management

Properly managed, offshore outsourcing is viable solution

Independent software vendors (ISVs) and enterprise customers are under increasing pressure to do more with less, and offshore outsourcing is on their agenda for many reasons. In an October 2003 survey conducted by CIO magazine, CIOs, CFOs and IT directors reported the following reasons for outsourcing: lower IT costs and capital expenses; accelerated time to market; compensation for lack of internal staff; and improved quality.

Faced with these business and technical issues, outsourcing application development offshore may be a suitable solution. However, as with any new mode of business, there are always costs and trade-offs. Here are some of the associated risks that ISVs and enterprise customers should consider when planning and executing an outsourcing strategy.

Cost expectations. For several years now, the business press has been claiming that IT work costing \$40-\$80 an hour in the United States can be done for \$15-\$25 an hour in India or Russia. If those figures sound too good to be true, that's because often they're not.

An offshore team often will not become productive (by onshore standards) for at least three to four months, or even longer for more complex projects. IT executives should expect to pay an additional 5 percent to 15 percent on managing an offshore outsourcing program, at least during the first year. The transition phase will add costs, too — planned expenses should cover due diligence, transfer of knowledge and extensive program management.

Data and intellectual property security. It is critical to establish an environment of trust with the selected vendor while executing the necessary legal protections. Make sure protections are in place in the event of turnover at the offshore vendor.

Consider outsourcing development work that will have little impact on your business if it is "appropriated." Groundbreaking research may be better held internally, while engineering on established products can be outsourced offshore.

The risk of data and IP protection is inherently raised when working in international business. Determine up front who owns the technology and/or the intellectual property that results from the software research and development. What should the offshore third party be prevented from doing with respect to developed or accessed intellectual property — sharing with others? Disclosing to others?

Project risks and scope changes. It is not a secret that the scope of the projects changes significantly during the software development life cycle. Going into outsourcing engagement, IT executives should consider the risks involved with project scope changes and their management.

With part of your team located in other time zones, it is critical to have collaboration and software configuration management tools that enforce established process standards, IP security, and maximum visibility and control. Consider how to manage the outsourcing program, properly select tools to facilitate the management process, track status and changes, communicate requirements, and maintain IP security.

Culture difference. Differences in culture can result in miscommunications, or assumptions made by either side that are incompatible with your business goals. These issues can reduce overall outsourcing program performance and productivity and can result in extra costs.

Several strategies can be used to mitigate risks, including using a project manager who has cross-cultural experience, or providing cultural sensitivity training to team members on both sides. It is critical to implement an ongoing program that stresses global and cross-cultural awareness, creating a comfortable multicultural workplace.

Knowledge transfer management. The time and effort to transfer knowledge and subject-matter information to the service provider is a cost rarely accounted for by IT executives. Both parties must establish a communication framework to transfer knowledge on objectives, issues, updates and results of an outsourcing engagement.

Knowledge transfer is an extremely important aspect of any outsourcing program management, particularly if documentation is lacking.

If the goals are to lower IT costs, accelerate the time to market and improve software quality, offshore outsourcing may help in attaining those goals. The key is to understand the risk factors as well as the advantages before engaging in an offshore solution. It is critical that a company properly identify the risks, execute due diligence and form a strategy for effectively managing its offshore relationships.

Consulting company McKinsey estimates that by 2010, the U.S. IT industry will save \$390 billion through offshore outsourcing of software development. Offshore IT outsourcing is a strategic tool for many IT companies in the United States, if it is properly timed, executed and managed.

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