

PRODUCTIVITY – OFFSHORING

Offshoring Basics

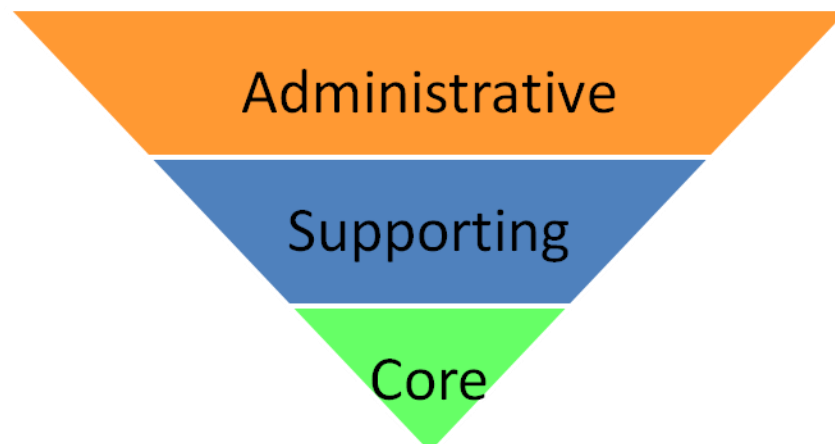
It is often difficult to balance Internal and External People Management.

The rise of borderless human capital

Globalization, technological advancements, and competitive pressures have fuelled the trend to outsource non-core functions of a company to alternative locations at a more economical cost to reduce labor expenditures. The availability of many offshore suppliers that specialize in common functions that can provide higher productivity than in-house staff has made this model very appealing to businesses. Moreover, this leaves a modular organizational structure that allows the business to focus on core competencies and skills to become further specialized at the processes that truly add value to operations and more importantly corporate goals.

Assessing processes for offshoring potential

The maturity and sensitivity of the business processes that are being offshored needs to be considered carefully as retraining costs are much greater due to the remote location of the staff. Typically the best work processes to be offshored are in the administrative area while the core processes should be retained internally.

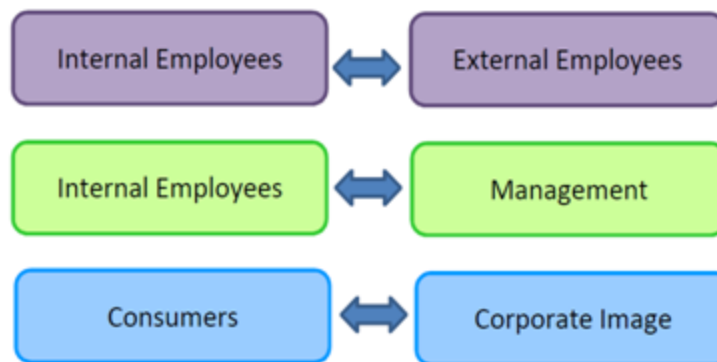


Considerations to determine suitability of the work process to be outsourced include:

1. Is the process a core competence of the business?
2. What are the client relationship impacts?
3. Are the process steps standardized?
4. Is there a high or low variation in work flow?
5. Will quality or service levels be improved?

Internal People Management

There are several key relationships that need to be managed:



Most organizations underestimate the impact that offshoring initiatives have on the corporate culture. In many cases there will be job losses which affect employee morale. The remaining employees will fear for the security of their jobs and attrition will increase. Anger and criticism towards management for not valuing employee contributions also often arise. Potential sabotage and animosity to offshore counterparts becomes counterproductive to operations and may occur in extreme cases. The corporate image of the company can also deteriorate as consumers generally perceive these initiatives as a lack of support for the local economy. Looking at all these risks, the potential backlash that can result from offshoring can become more costly than the original savings.

The following components should be examined and where practical performed to help maintain solid relationships:

1. Involve employees in the planning and implementation of offshoring work processes
2. Provide assistance to ease the transition of displaced employees
3. Emphasize the advantages of the removal of non-core work processes
4. Position offshoring as part of the solution, not part of the problem

External People Management

Many companies are noticing that the retraining costs are ballooning especially as turnover occurs in external staff. As these tasks generally require low skills, it is difficult to keep these employees motivated so other forms of reward need to be developed. Traditionally, management has had a hands-off approach and leaves this problem for external management to deal with; however, the significant impact on the internal operations suggests that a proactive and collaborative approach should be explored instead.

Geographical distance between management and the external employees often require a change in management methodologies and communications since feedback may not be as direct or frequent as in traditional internal processes.

As with any transitioning of roles, there will be knowledge transfer and a learning curve period associated for the new staff which has often led to a drop in accuracy and output levels in processes. It is important to manage external employees with the same rigor as internal employees.

A sample template of a Daily Operating Report for monitoring is shown below which serves several key purposes:

1. Setting quantifiable and clear expectations
2. Identifying trends and variances to take action upon
3. Monitoring process inputs and outputs

DAILY MANAGEMENT REPORT															
										Today:		Wed, Jan 5, 2011			
										Week to Date		Month to Date		Year to Date	
Work Process 1	Units	Baseline	Required	Fri	Mon	Tue	Wed	Thu		Actual	Variance	Actual	Variance	Actual	Variance
Metric 1	#	200	200	232	Holiday	193	199	175		200	0	200	0	200	0
Metric 2	#	100	100	147	Holiday	62	126	171		127	27	127	27	127	27
Metric 3	#	45	45	42	Holiday	36	42	48		42	-3	42	-3	42	-3
Metric 4	#	200	200	317	Holiday	227	141	177		216	16	216	16	216	16
Work Process 2	Units	Baseline	Required	Fri	Mon	Tue	Wed	Thu		Actual	Variance	Actual	Variance	Actual	Variance
Metric 1	#	45	45	36	Holiday	45	48	52		45	0	45	0	45	0
Metric 2	#	30	30	33	Holiday	22	20	13		22	-8	22	-8	22	-8

Conclusion:

Offshoring can be beneficial to a business structure, but requires much planning and relationship management on various levels for successful implementation and sustainable results. The additional planning and effort involved in maintaining these relationships ahead of time will help avoid indirect costs that could change the bottom line. In today's rapidly changing economy, it is essential to take advantage of these external resources to allow for strategic growth, remain competitive and create synergies of skills in the long term. ✨