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## Outsourcing Leaders Speak Up

Advice by Richard Mills, Chalre Associates

AUGUST 29, 2005

(COMPUTERWORLD) - Offshore outsourcing is an emotional subject these days, and many senior managers are uncomfortable talking openly about their company's projects for fear of being labeled unpatriotic job killers. One fellow from California told me that when he accepted a posting to run his company's offshore facility in the Philippines, a number of co-workers came to his office to let him know he was "tearing apart the very fabric of our nation."

Even big-talking CEOs, who can usually be counted upon to hype their company's cost-reduction strategies, are often remarkably silent about offshore outsourcing.

They seem to treat the subject like pornography -- they all want to sneak a peek but none want to admit to doing so.

Happily, there are some people who will talk about their experiences with offshore outsourcing, and their comments are useful for the rest of us. Most seem optimistic and think the future of offshore outsourcing is bright. Nevertheless, no one should be misled that running an outsourcing facility in a developing country is a Sunday

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afternoon picnic. There are serious frustrations that must be contended with.

Charles Phelps is a Texan who runs the large Manila-based design engineering center of Fluor Daniel, one of the world's largest engineering companies. The firm has been in the Philippines for many years and is now able to develop complete engineering designs for large facilities in the oil and gas and manufacturing sectors. Charlie speaks highly of his Filipino employees. "Our clients are always impressed when they visit our office," he says. "They see the smiles, the friendly atmosphere, the positive attitude of our team and immediately are impressed."

Charlie became rather testy with me when I referred to his center as a "back-office operation." He responded, "Richard, don't you ever call us 'back-office.' We are a global service partner within Fluor's worldwide operations and leading-edge in several areas of focus."

He also presented an interesting slant to the job loss worries at some U.S. companies. Charlie believes employees at Fluor feel that their jobs depend on offshore engineering-design groups like his. Without Filipino engineers, their proposals wouldn't be competitive in today's global market.

Neil Elias started the Manila-based business-processing facility of American International Group Inc., the world's largest insurance company, from scratch a few years ago. He has good things to say about the quality and quantity of applications available for his processing work -- all of whom are university graduates. He says his employees have a "real desire for training and a service orientation." In addition, he says, government, schools and industry are all working together to make it a success.

John Standing is the talk of Manila these days for turning around the outsourcing operation of Pleasanton, Calif.-based Safeway Inc., the mammoth supermarket chain. When John came, it was common knowledge among the local industry that the operation was a poor performer. After being extracted from a third-party project, the center lost its first general manager just five months later. John's turnaround results are said to have been dramatic and faster than most people here anticipated. He seems to enjoy talking about his success but acknowledges that it was really a matter of putting the right people in the right positions. John says the people you can hire in the Philippines aren't very different from those you can hire in the U.S. or Canada.

Klaas Brouwer is vice president of global technology for Nasdaq-listed Innodata Isogen Inc. The Hackensack, N.J.-based company's 5,000-plus offshore employees provide high-end content and knowledge management services to U.S. and European clients. Klaas is based in Manila but oversees operations for all facilities

worldwide. When I asked him what advantages he has by operating offshore, he says it's the people. For once, this fast-talking Dutchman had to be prodded for details about this. He said that people in Western countries will work late to finish a job for the first week, but you get a lot of long faces if you ask them to do this for a second week. In the Philippines, people work until the job is done, however long it takes.

Then there is the qualification availability. Klaas mentioned that positions occupied by basic college graduates back in Europe are being taken by lawyers and doctors in his current company. He also talked about his workers being loyal, friendly and trusting.

Salary costs are probably the only significant positive that business leaders are overly keen to boast about. It's no secret, however, that these offshore employees who are so admired by their employers are available for a few hundred dollars a month. Despite the bashfulness, we can be sure that this factor warms the hearts of many a CEO back in the home office.

But we all know that you don't get something for nothing. There are plenty of problems operating offshore facilities, and we should be aware of a few of them.

All offshore managers say there is a strong deficiency of management talent. In developing countries, it's not always easy to hire managers off the street who are capable of performing at international levels. And since outsourcing is such a rapidly growing industry and growth rates in employment have been so astounding, it's understandable that there hasn't been time to develop enough quality managers. As the industry continues to thrive, this predicament will only get worse.

Another increasing concern of senior managers is that their qualified staffers are being hired away by overseas companies. Japan, Singapore and Saudi Arabia are examples of countries that are aggressively pursuing Filipinos and Indians. When writing this report, I received an e-mail asking for assistance. "They are going to hire away from me 20 of my top designers and ship them up to Japan after some language training. This will hurt me big." This threat is currently an ongoing concern for those employing technical people, and indications are that other skill sets could soon be affected.

Another interesting challenge that most senior managers contend with has to do with perceptions among their companies' U.S. and European teams that their operations are job killers. The result, the managers feel, is vastly increased scrutiny of offshore performance and even a reluctance to work with the offshore operation. In turn, offshore managers say they are forced to drive quality of Philippine and Indian output "above that of the work being performed in developed countries."

Of course, there are a lot more challenges than the few discussed above. But 1 are said to be manageable and more than outweighed by the advantages of w offshore.

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