

Lessons Learned in IT Offshoring

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Abstract

Due to excellent skills and sufficient capacities in low-wage countries like India, an increased business trend to offshoring has become visible. In this context, already established practices from the U.S. are finding a growing recognition in Europe. At present, it can be noted that European companies are currently three years behind, trying to follow the offshoring trend. In order to bear up against the rising competitive pressure triggered by globalization, at least the large European companies will be interested in developing and implementing international outsourcing strategies in the long run.

Despite the growing interest in IT offshoring, there are only few lessons learned documented. Within this paper, based on a comprehensive literature research and interviews with practitioners who work in the field of IT offshoring, key lessons learned are analyzed, selected, and structured in a classification framework. Within every single phase of an offshoring project, different success factors have to be taken into account. Therefore, the evaluated lessons learned presented in this paper are classified by the life cycle phases of an international outsourcing project. Additionally, the lessons learned are differentiated by strategical and operational issues.

Keywords: *IT, Offshoring, Nearshoring, Lessons Learned, Success Factors*

1 Motivation

In the 80's and up to the early 90's, a lot of companies emphasized a broad diversification of their business operations. An example for this type of orientation was the Daimler Benz affiliated technology group, led by Edzard Reuter. However, this trend seems to have taken on new directions since then. It has become clearly visible that companies worldwide tend to shift their focus more and more towards their core competencies (Söbbing, 2002). In conjunction with a continuous globalization of sales and procurement markets, and an increase in competition (Bayerischer Industrie- und Handelskammertag, 2002) [BIHK], companies are on the search for new, profitable ways to structure their business operations. As a consequence, implementation of offshore outsourcing projects is at the top of many organizations' to-do lists for 2004 and beyond

(Jacobson & Lidman, 2004). META Group predicts that offshore outsourcing will grow by more than 20 % annually, pushing it from a \$7 billion market in 2003 to a \$10 billion market in 2005.

The drivers of the offshoring trend can be viewed from a national economy perspective, and from a corporate perspective. According to Kalakota & Robinson (2004), from the perspective of a national economy, the offshoring trend is driven by the following structural changes of the global economy:

- Globalization
- Competition
- Evolution
- Deflation
- Demographics

From a company's point of view, the offshoring trend is mainly fortified by the opportunities it offers. According to Moczadlo (2002), for most of the companies, the major reasons for cooperating with an offshore service provider are:

- Cost reduction
 - Flexibility in staff numbers
 - Quality improvement
 - Reduced time-to-market
- Etc.

Normally, cost reduction is the key compelling reason for sourcing out an activity or a process to an offshore provider. But first experiences of companies with offshore outsourcing often form another picture. While potential cost savings are close to 50 %, in the worst case, no cost saving at all is realized. According to Jacobson & Lidman (2004), 78 % end an offshoring relationship abnormally, 71 % hire a new outsourcing vendor, and 56 % rate the quality as worse than in-house.

The disappointing experiences of companies with offshoring projects can often be traced back to a poor project management, and the cultural and linguistic differences between the project partners. According to Moczadlo (2002), the management of an offshoring project states the biggest issue in order to realize the expectancies affiliated with the offshoring decision. Within the empirical study, the cultural and linguistic differences rank second and third.

Without solving the mentioned issues, companies will not be in the position to tap the full potential of offshore outsourcing. For German firms, the cost saving potential is estimated to revolve somewhere around two billion Euro per year (Buchta, Linß, Röder, & Ziegler, 2004). Yet, to completely harvest such an enormous amount, offshoring customers still have many lessons to learn. Otherwise the already mentioned issues may lead to a complete loss of the cost advantages, a company is expecting through engagement in international outsourcing.

As a first step, in an effort to identify key success factors, a comprehensive literature research into IT offshoring was conducted over the last nine months. In a second step, the

analyzed and selected key lessons learned were valued with practitioners from large German companies, working in the offshoring field, in order to verify the results of the literature research. Finally, the results of the research were structured in a classification framework.

It has to be emphasized here that the success factors, listed in the following chapters, concentrate on the outsourcing of IT activities and business processes from an offshoring customer's point of view.

2 Lessons Learned

The lessons learned presented within this paper are classified by an abstract model of the offshoring project life cycle. Based on Amberg & Wiener (2004a), the following phases are distinguished:

1. *Planning*
2. *Provider Selection*
3. *Contract Forming*
4. *Implementation*

The specific activities assigned to the different stages of an offshore outsourcing project are listed in Figure 1.

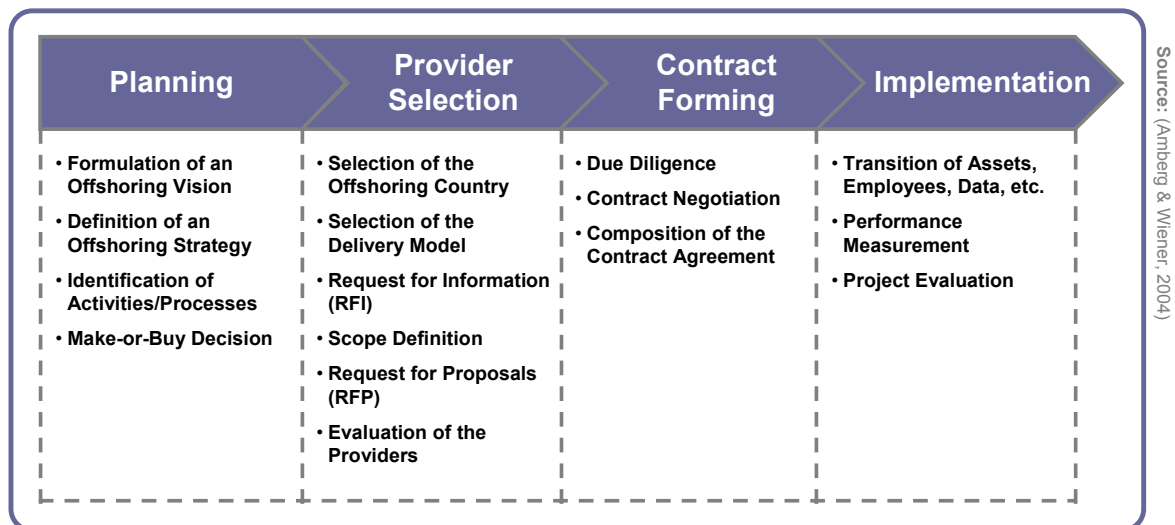


Figure 1: Offshoring Project Life Cycle

In addition, within the different phases of the project, the critical success factors are differentiated by strategical and operational issues:

1. **Strategical Issues:** Success factors which have to do with the strategy of an offshoring project, and, therefore, possess a long-term character.
2. **Operational Issues:** Success factors which are related to the execution of the project, and, therefore, possess a short-term character.

It has to be mentioned that a selective differentiation between strategical and operational activities is partially hard to accomplish.

2.1 Planning

In general, it can be noted that comprehensive planning during the preliminary stages of an offshore initiative lays the foundation for the success of an offshore project. Contrary to projects with domestic partners, the dislocation of projects to a foreign country calls for much higher planning expenses (Boehm, 2003).

Moreover, already during the stage of planning an offshoring initiative, it is advisable to find and successfully integrate competent lawyers. These can be of great help, especially, when it comes to determining the delivery model and the business location. Furthermore, it allows a company to tackle and resolve legal questions, for instance, concerning copyright and intellectual property rights during the preliminary stages of the offshoring project (Beeler, 2004).

Strategical Issues

2.1.1 Definition of an Adequate Offshoring Strategy

One significant success factor for the customer lies in the early definition of an adequate offshoring strategy. According to Buchta et al. (2004), 80 % of the companies which defined an appropriate strategy before launching the offshore project and then implemented it, ended up reaching nearly all of their cost-saving goals. On the contrary, those which set up offshore projects in an ad hoc fashion were, in the majority of cases, not able to meet the company's expectations.

To define an adequate offshoring strategy, the company needs a clear understanding of the strategic goals for the outsourcing initiative (Kalakota & Robinson, 2004). If a customer does not know what they want to achieve, how can they assess the results of the project later on?

In theory, the strategy finding process comprises three stages: In a first step, the company should formulate a vision closely connected with the offshoring initiative. As a next step, the main goals of the initiative should be derived from the developed vision. Finally, the identified objectives have to be unified in an overall offshoring strategy (Amberg & Wiener, 2004b).

2.1.2 Execution of an Inside-Out-Strategy

For a company, which possesses little or no experience in the field of offshoring, it is wise to begin by first giving a less critical project into the hands of a service provider (Sparrow, 2003). This type of proceeding is commonly referred to as an inside-out-

strategy (Dubey, 2003). Here, the focus is limited, and first, only manageable projects are outsourced overseas. This allows easier controllability and enables an evaluation of the results in a more straightforward way, as opposed to conventional methods. If the offshore partner fulfills the company's expectations, it can follow up by eventually outsourcing more complex operations to the service provider. For instance, the firm could start by first outsourcing only maintenance tasks based on already existent applications to their overseas partner. In a second step, the company could continue by ordering the development of additional modules for existing software systems from their external provider. Finally, if the offshore provider stands the test, complete software development projects could be offshored.

The highest level of offshoring is reached, when a company outsources entire business processes to a foreign provider. This kind of IT outsourcing means that the contractual partner has direct influence on the business operations outsourced by the company. Therefore, it is wise to follow such an offshore project only after a few years of positive experience with the service provider (Dubey, 2003).

Establishing a partnership with a service provider in a step-by-step fashion not only benefits the controllability of the project, but even minimizes the hazards connected with offshoring (Dubey, 2003). Dell is an example of a company which successfully executed an inside-out-strategy: They started out with a single call center in India, run by the Indian service provider Spectramind¹. Building on the experience from this initial offshore project, Dell followed up by installing a support center in Bangalore (India), which boasted more than 400 employees in June of 2001. The main purpose of the center was to offer e-mail and language support for American private users as well as for smaller firms, situated within its vicinity. Yet, future development plans are looking to expand the support services to other regions and additional target groups (TransCrit, 2004).

2.1.3 Finding a Champion

Crucial for the success of an offshoring initiative is the support of the top management. Shifting jobs offshore involves managers, as some of them will suffer losses in terms of power. In order to convince managers of going offshore, it is needed to overcome their resistance (Albert & Thondavadi, 2004).

In this context, it is vital to find a champion within the top management. The champion should have a compelling vision to market internally the idea of offshore outsourcing. Besides marketing the offshoring program by pointing out the benefits of such an initiative, the management should also get informed about the risks of going offshore (Albert & Thondavadi, 2004).

¹ In the meantime, Wipro, one of India's largest IT service providers, has obtained the majority of Spectramind shares (TransCrit, 2004).

A frequently quoted example for a champion is Jack Welch from General Electric. He had a strong vision about offshoring and the efficiencies it could yield for the company. As a consequence, nowadays, General Electric is involved in a multitude of IT offshoring projects (Albert & Thondavadi, 2004).

Operational Issues

2.1.4 Identifying Appropriate Activities/Processes

To identify high-cost and high-manpower tasks, appropriate for an offshoring project, all areas of the company should be subject of a detailed analysis. As a rule of thumb, especially well-documented activities or processes, not critical for a company's business, are suitable for offshoring. Contrary, activities/processes that give a competitive advantage to a company should never be part of an offshoring program (Albert & Thondavadi, 2004).

In order to identify the right activities/processes for an offshoring project, according to Jacobson & Lidman (2004) and Amberg & Wiener (2004c), it is helpful to consider the following questions:

- Is the activity/process a core competency with strategic relevance?
- How complex is the activity/process?
- Who are the stakeholders of the activity/process?
- Are there interfaces to other activities/process?

In respect of these questions, potential outsourcing candidates, generally suited for an overseas relocation, can be identified.

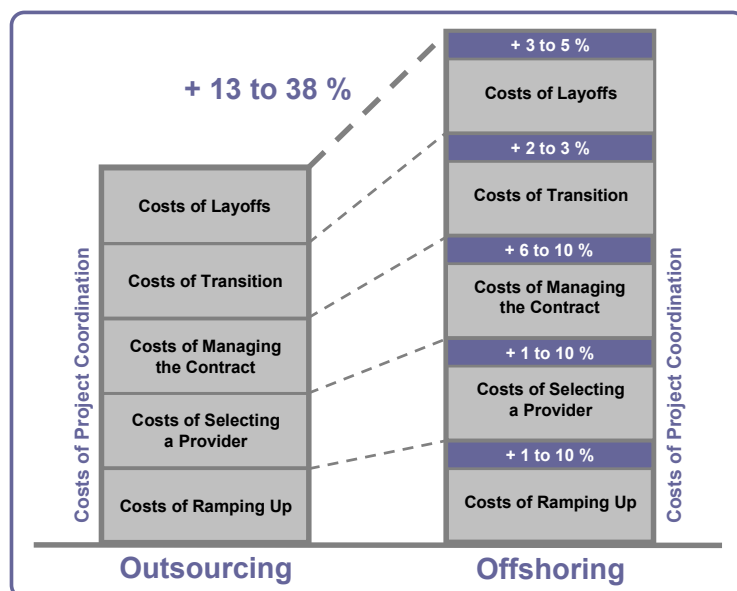


Figure 2: Hidden Costs in Offshoring Project Coordination

Subsequent to the identification process, the selected IT activities/processes should be scrutinized in terms of economic efficiency. Usually, the Total Cost of Ownership (TCO) based on the outsourcing candidates is compared head-to-head to a first estimation of the Total Cost of Offshoring for the accordant services. Already at that time, it is essential to implicate the „hidden” costs of offshoring, which incur at an international project in comparison to a traditional one. The most important cost-drivers in relation to coordinating an offshoring initiative are highlighted in Figure 2.

In addition to the economical analysis, the corporation has to find out if going offshore with the identified activities/processes is feasible. For instance, legal reasons could impede the relocation abroad (Albert & Thondavadi, 2004).

2.1.5 Adjustment of Internal Processes

Offshoring projects are condemned to fail if the customer itself does not possess repeatable internal processes (Albert & Thondavadi, 2004). Without these, a company cannot clearly determine the scope of its offshoring initiative and wrong expectations arise. Moreover, the cooperation between vendor and client suffers from the differences in business process quality, making it more difficult to interact with each other for both sides.

In order to qualify for cooperation with an overseas IT service provider, a company should adjust their internal processes, before engaging in an offshore project. According to Buchta et al. (2004), more than 50 % of the treated companies aligned their internal operations, in order to be able to work hand-in-hand with an offshore provider. In this context, above all, the standardization of internal IT processes takes on an exceptionally important role.

The relocation of a software development project to a foreign country particularly requires an adjustment of traditional development processes to the modified conditions and regulations. Most of the internal IT departments, nowadays, tend to follow an iterative procedure in IT development (for instance „Rapid Prototyping“), thereby attempting to heavily integrate operating departments into the development process. In an offshore project, however, this approach is very tough to cling to. Hence, the outsourcing company should devolve into a formal execution and well-defined separation of duties and responsibilities within the scope of software development (Buchta et al., 2004).

Regarding process quality in the IT sector, the Capability Maturity Model (CMM) from Carnegie Mellon University (USA) continues to gain in importance (Dubey, 2003). Notably, a great number of foreign providers seem to be complying with this trend. In India, for instance, all top-of-the-line service providers carry at least a CMM level 4 certification (compare Table 1); whereas offshoring customers often have problems reaching CMM level 3.

	Company	Export Volume*	Certification	
			ISO 9000	SEI-CMM
1	Tata Consultancy Services	963,0 \$	ISO 9001	Level 5
2	Infosys Technologies Ltd.	750,7 \$	ISO 9001	Level 5
3	Wipro Technologies	590,5 \$	ISO 9001	Level 5
4	Satyam Computer Services Ltd.	424,4 \$	ISO 9001	Level 5
5	HCL Technologies Ltd.	324,3 \$	ISO 9001	Level 4
6	Patni Computer Systems Ltd.	193,6 \$	ISO 9001	Level 5
7	Mahindra British Telecom Ltd.	134,5 \$	ISO 9001	Level 5
8	iFlex Solutions	125,7 \$	-	Level 5
9	HCL Perot Systems Ltd.	95,1 \$	ISO 9001	Level 5
10	NIIT Ltd.	90,3 \$	ISO 9001	Level 5

* Export Volume (2002/2003) in Million US \$

Source: NASSCOM

Table 1: Quality Certifications of India’s Top Ten Offshore Providers

The consequential, resulting differences in business processes of the outsourcing partners can lead to major complications within the realms of their interaction. A high level of quality in line with CMM requires an acute amount of documentation, as well as in-depth processes. If a company is not prepared for the procedures in accordance to CMM level 4 or 5, a great deal of time and expenses will be involved in the coordination of the collaborative interface between the two partners (Dubey, 2003).

As a result, a CMM level 5 on the customer side is of little use to the provider, if the processes within the outsourcing firm lack a clearly defined structure. In order to give way to an efficient cooperation, the offshore provider should remain within two CMM levels of the outsourcing firm. If this is not the case, the substantial differences in process-flows must be compensated by extensive personnel and management costs (Overby, 2004).

2.2 Provider Selection

The selection of an offshore provider is a critical step within the project. The company has to collect a huge amount of information about potential partners in order to create a sufficient decision basis, minimizing the risk of selecting the “wrong” vendor.

To select a provider, a company can employ a consultant agency or do it itself. But especially for companies without experience in the field of offshoring, it is advisable to involve an intermediary during the selection process (Albert & Thondavadi, 2004).

Strategical Issues

2.2.1 Selection of an Appropriate Offshoring Country

According to Albert & Thondavadi (2004), the selection of the offshoring country should be primarily based on the following aspects:

- Geopolitical risks
- Knowledge-domain strengths
- Talent pool
- Comparative costs
- Work culture

In terms of geopolitical risks, reports from credit rating agencies (e. g., Moody's, and Standard & Poor's) are available to facilitate the country selection. Since an emergency can cause huge problems, the company should pay increased attention to the geopolitical stability of a potential offshoring destination (Albert & Thondavadi, 2004).

In order to minimize risks connected with an offshoring initiative, many companies take a multi-country approach. By doing this, the customer can promptly transfer the outsourced activities/processes to another location, if problems arise within a country (Kalakota & Robinson, 2004). This approach may also require a multi-vendor strategy.

2.2.2 Determination of the Right Delivery Model

In general, according to Kalakota & Robinson (2004), a company has the choice between the following three delivery models:

- Build an own subsidiary (captive center)
- Buy into an existing service provider (joint venture)
- Create a sourcing relationship (external service provider)

In reference to the selection of the delivery model, it is not possible to give a universally valid advice. Rather, the selection process is dependent on a number of influence factors. One of the most important factors in conjunction with the selection of the delivery model is the customer's level of experience in the field of offshoring. If a company has little experience in offshoring, it is advisable to wait on more complex models (e. g., captive centers, joint ventures, and build-operate transfer), and to involve a consultant agency with several years of experience in implementing offshoring projects (Kalakota & Robinson, 2004).

After having selected a delivery model, the creation of an effective project structure provides a tremendous amount of support for the successful course of an offshore project (Goolsby, 2002). This mainly embodies the delegation of relevant tasks between the onsite and offshore teams. Generally, it can be said that expected cost savings can only be achieved, if there is a clear breakdown of the business activities between customer and vendor. Mixed forms of interaction, e. g., internal employees who work partially offshore

at the location of the foreign service provider or vice versa, are only recommendable in particular situations. Through this, a firm's labor costs threaten to blow out of proportion, due to double salaries for staff members working abroad. Moreover, the company must pay travel and accommodation costs. Exceptions from the above are know-how transfer at the beginning and at the end of the partnership as well as the delegation of staff teams, in an effort to settle disputes during the course of the project (Herold, 2004).

Operational Issues

2.2.3 Extensive Assessment of the Vendors

For the success of the offshoring project, it is crucial to develop a method of evaluating potential project partners. Within the scope of the vendor evaluation, the buyer should consider both qualitative and quantitative criteria (Albert & Thondavadi, 2004).

According to Albert & Thondavadi (2004), a qualitative assessment should include the following variables:

- Industry know-how
 - Flexibility
 - Communication skills
 - Reputation
 - Management structure
 - Quality certifications
- Etc.

With reference to the quantitative assessment, Albert & Thondavadi (2004) recommend taking into account the following variables:

- Telecom infrastructure
 - Geographic presence
 - Cost
 - Financial stability
 - Ramp-up capability
 - Offshoring experience
 - Appropriate size
- Etc.

As determining the evaluation criteria, it is also important to rank the criteria by importance and to specify weighting factors for every single criterion.

2.2.4 Mapping of Requirements and Capabilities

For a successful provider selection, it is crucial to implement a gap analysis between the business requirements of the customer and the capabilities provided by the potential

cooperation partners (Kalakota & Robinson, 2004). After having identified the existing gaps, these can be expressed in terms of potential costs and risks.

According to Herold & Lahme (2004), the mapping of business requirements and provider capabilities should take into consideration the following three perspectives:

- Technical perspective
- Commercial Perspective
- Process-related Perspective

As a result of the gap analysis, the possible cooperation with the corresponding service provider can be assessed in terms of technical feasibility, cost difference, and process compatibility. The identified gaps within the different assessment perspectives can be connected with risk groups, and quantified in ramp-up costs. By doing this, the ranking of the potential suppliers is considerably simplified (Herold & Lahme, 2004).

2.3 Contract Forming

The forming of the offshoring contract is an important step in terms of preventing conflicts during the implementation phase of the project. In order to avoid exorbitant expectations on both sides, the contents of the cooperation have to be clearly defined, and, already in the preliminary stages of the negotiations, the customer has to ensure that the foreign vendor has the abilities to deliver the contractual agreed services (Kalakota & Robinson, 2004).

Furthermore, due to the fast moving IT landscape, and the fact that a lot of outsourcing contracts are long-term, it is vital to create a flexible contract agreement. Frequently, the requirements of a company change during the course of the project, and the contract has to be adapted to new requirements.

Strategical Issues

2.3.1 Creation of a Flexible Contract Agreement

In many cases, outsourcing agreements are long-term, disposing of contract durations of more than three years (Kalakota & Robinson, 2004). In order to make use of the flexibility advantage within the offshore partnership, the cooperation should rest on flexible contract agreements (Goolsby, 2002), since the demands of the outsourcing customer often tend to change substantially during the course of the project. Therefore, the possibility of expanding the initial contract agreements through the addition of new, unconsidered aspects should always be given.

Furthermore, determining the court of jurisdiction (Sparrow, 2003) as well as defining clear guidelines for managing intellectual proprietary rights and copyright issues (Haeberlein, 2004) take on important roles in respect of offshoring contracts.

Operational Issues

2.3.2 Acceptance and Acquaintance of Cultural Differences

In spite of a thorough and accurate selection of the offshore destination and provider during the planning stages, many cultural “mysteries” between the contractual partners will still accompany new projects. Especially, in the stage of negotiating the outsourcing contract with representatives of the outsourcing provider, the cultural differences among the project partners are clearly perceivable. Table 2 points out important differences among West-European and Asian businessmen during the negotiation phase.

West-European Businessman	Asian Businessman
Favors fast get-together	Favors slow approach
Wants to work without middleman	Wants to work with middleman
Prefers direct information exchange	Prefers indirect information exchange
Negotiates impatiently	Negotiates perseveringly
Aims at a good stroke of business	Aims at a long-term partnership

Source: (Graham & Lam, 2004)

Table 2: Cultural Differences Concerning the Contract Negotiation

In this context, it is necessary to bridge the cultural gap, using counteractive measures. Staff members should immediately get accustomed to the “dos” and “don’ts”, regarding the interaction with their foreign colleagues. The general willingness of the internal employees, to accept the behavior and habits of an external culture, can be viewed as a basic requirement (Boehm, 2003).

2.3.3 Clear Definition of Service Levels and Development Guidelines

Like in all IT projects, the clear definition of business needs and service specifications is fundamental for a successful project course. In national outsourcing projects, a detailed project specification gets even more important, because of the spatial distance between the project partners. But still, in offshoring projects, the clear definition of service levels and software development guidelines has to be rated even more success-critical than in traditional outsourcing projects, due to the different cultural backgrounds of the involved employees, and the greater distance between the project locations (Jacobson & Lidman, 2004).

In general, a Service Level Agreement (SLA) should specify the responsibilities of the offshoring provider, the rights of the customer, and the penalties for violating any element of the SLA. In addition to that, the SLA has to define the service itself, the expected quality of the service and the evaluation criteria for measuring the service delivery through the provider (Albert & Thondavadi, 2004).

The compilation of accurately detailed project specifications by the outsourcing customer is not to be categorized as something trivial. Internal project members are not accustomed to the demand for such a high level of detail. Exact principles are needed, in order for the service provider to understand the precise demands of the customer. Comprehensive project specifications are used to generate a guarantee for high quality services on the part of the external service provider (Fischer & Schumacher, 2004).

Without clearly defining key metrics in the preliminary stages of the project, conflicts with the offshoring provider will arise. In the worst case, these disputes could jeopardize the success of the entire outsourcing project (Kalakota & Robinson, 2004).

2.4 Implementation

During the implementation phase of the offshoring project, especially, the cultural and linguistic differences between the project partners can be the decisive factor for dissatisfying results. In order to prevent a scenario like this, it is essential to take countermeasures early, and to establish efficient control structures. In addition to that, the management should scrutinize the offshoring decision at regular intervals:

- Is the selected provider still the right one?
 - Are there better partners available on the global service market?
 - Do the outsourced activities/processes still not belong to the core competencies of the company?
 - Are there other activities/processes which could also be offshored?
- Etc.

As a consequence of the fast moving IT service market, and the possibly changing strategic direction of the company, it is essential to ask the mentioned questions regularly. Only by doing this, the customer will achieve the best result possible with the offshoring project.

Strategical Issues

2.4.1 Continuing Training of Employees

Focusing on the outsourcing customer, a continuing training of employees represents a major success factor. According to Buchta et al. (2004), this is the reason, why two thirds of the viewed companies conducted advanced training measures. Through such actions, employees were expected to pick up the needed expertise for successful offshoring project management. About 20 % of the investigated companies acquired the much sought-after management skills by purchasing external know-how. The companies' enormous investment disposition in this particular field underlines the importance of internal training in connection with offshore projects.

For instance, a lack in communication between the offshoring partners can induce severe issues. Therefore, both sets of employees should undergo an intensive training program. According to Albert & Thondavadi (2004), within the training sessions, especially the following aspects should be emphasized:

- Understanding of cultural differences
- Tolerance for an accent
- Dealing with time zone differences

2.4.2 Management of the Vendor Relationship

During the operating phase of an offshoring project, a company should structure its administration in an effective way. The largest benefits of this arise, when the customer puts appropriate effort into managing the relationship with the offshoring provider (Goolsby, 2002). The acute maintenance and care of a company's relationship to its offshore partner is definitely one of the key requirements for a long-term partnership with the service provider.

In general, a strong strategic cooperation should be a fundamental goal of firms engaging in an offshoring initiative (Fischer & Schumacher, 2004). This type of mentality should also be existent among customers which do not cooperate with a partner firm (joint venture) or subsidiary but rather choose to receive their requested IT services from an independent company. Due to enormous investments in internal and external employee training, alignment of business operations, assumption of assets, etc., in the preliminary stages of an offshore project, the desired cost savings of an outsourcing project can often only be reaped after engaging in a long-term partnership (Rack, 2004).

According to Jacobson & Lidman (2004), predominantly, the following factors have to be in place to enable a good relationship between client and vendor:

- Clear understanding of each other's business
- Clear performance measurements
- Clear responsibilities of both the client and the vendor
- Face time for the key representatives of both organizations

Recapitulating, it can be said that a good relationship with the foreign vendor is essential for a successful offshoring initiative. To establish such a relationship, the service provider should be treated as a partner, not just as a vendor that delivers the contractual agreed services (Kobayashi-Hillary, 2004).

Frequently, to ensure a success-promising relationship in long-term projects, both cooperation partners appoint relationship managers. These form the interface between the offshoring partners, and are primarily responsible for conflict and change request management issues (Kalakota & Robinson, 2004).

Operational Issues

2.4.3 Creation of a Continuous Communication Flow

Pursuant to interviews with representatives of offshoring customers, poor operational communication, referring to the day-to-day communications between the customer and the vendor, is one of the major reasons for disappointing project results. Therefore, according to Kalakota & Robinson (2004), it is recommendable to develop a communication plan. Among other things, this plan should specify the following aspects:

- Frequency
 - Time
 - Content
 - Initiator
 - Participants
 - Medium
- Etc.

In order to prevent a lack of transparency on behalf of the outsourcing company, a communication plan should foster a continuous communication flow between the different project locations. The distance between the business partners as well as the existent cultural and linguistical barriers should not have a negative impact on the communication (Boehm, 2003).

In terms of operational communications, it is also important to attach importance to the documentation of the outsourced activities/processes through the offshore service provider. Without an adequate documentation, it is complex to transfer the accumulated knowledge to the buyer at the end of the offshoring project, making it difficult for the client to continue the formerly outsourced activities in-house, respectively to hand them over to another service provider (Jacobson & Lidman, 2004).

2.4.4 Continuous Performance Measuring

In line with the operating phase, it is crucial to conduct a continuous performance measurement in accordance to the agreed service levels, respectively the defined software specifications (Goolsby, 2002). If the offshoring provider fails to fulfill the performance guidelines of the outsourcing customer, or only fulfills them in an unsatisfied fashion, it can be threatened with contract penalties (Rack, 2004).

To guarantee an efficient performance test, it is advisable to appoint members in charge of the project, before engaging in the cooperation as well as to define explicit project goals and key operating figures for the control of success during the course of the project (BIHK, 2002).

In order to conduct a reliable performance measurement, the outsourcing customer should prefer to maintain internal IT expertise, despite relocating abroad, most importantly to

monitor the offshore provider. If the company were to give up their entire line of IT specialists, it could lose control over its offshoring provider. This can particularly be reflected in inflationary prices. A company, which lacks IT expertise, can neither determine which business units are suitable for offshoring nor are they able to judge, whether the offshoring provider performs the agreed services in a satisfying manner (Overby, 2004).

According to Kobayashi-Hillary (2004), in terms of measuring provider performance, it is crucial to keep focused on the results of the offshoring project. In this context, it is recommendable to define Key Performance Indicators (KPIs), and to benchmark the outsourced services against others. In addition to that, the company should concentrate on monitoring a small number of expressive parameters, instead of monitoring all parameters available.

By defining performance metrics, firstly, the company has to ensure that the services delivered by the offshore provider are at least equal, in terms of quantity and quality, to the ones delivered by the internal team before. Otherwise, the offshore cooperation will experience further resistance within the company. In a second step, the company has to make sure that the offshoring project adds real value to the company in the long-term.

3 Summary

Based on a comprehensive literature research and interviews with practitioners, the paper analyzed and structured important lessons learned in IT offshoring. Table 3 summarizes the lessons learned presented within this paper.

Phase Issues	Planning	Provider Selection	Contract Forming	Implementation
Strategical Issues	<ul style="list-style-type: none"> • Definition of an Adequate Offshoring Strategy • Execution of an Inside-Out-Strategy • Finding a Champion 	<ul style="list-style-type: none"> • Selection of an Appropriate Offshoring Country • Determination of the Right Delivery Model 	<ul style="list-style-type: none"> • Creation of a Flexible Contract Agreement 	<ul style="list-style-type: none"> • Continuing Training of Employees • Management of the Vendor Relationship
Operational Issues	<ul style="list-style-type: none"> • Identifying Appropriate Activities/Processes • Adjustment of Internal Processes 	<ul style="list-style-type: none"> • Extensive Assessment of the Vendors • Mapping of Requirements and Capabilities 	<ul style="list-style-type: none"> • Acceptance and Acquaintance of Cultural Differences • Clear Definition of Service Levels and Development Guidelines 	<ul style="list-style-type: none"> • Creation of a Continuous Communication Flow • Continuous Performance Measuring

Table 3: Classification Framework for Lessons Learned in IT Offshoring

As interviewing practitioners, it turned out that the applied classification framework is qualified for systematically structuring lessons learned in IT offshoring. In addition to

that, from their point of view, the framework was particularly helpful to assess major mistakes committed in previous offshoring projects.

The mentioned success factors may help companies on constructing more promising offshoring projects, thereby raising their chances of efficiently making use of the vast potentials international outsourcing has to offer. Especially companies, which haven't engaged in offshoring projects up to now, can in this manner benefit from other companies' experiences in this field. In the near future, the successful composition of IT offshoring projects might be one of the keys to a company's success.

Finally, it can be noted that a comprehensive planning phase and an elaborate provider selection are crucial for the success of an offshoring project. Contrary to the cooperation with domestic partners, offshoring requires much higher expenses in the preliminary stages of the project. Within these phases, due to the long-term impact of activities and decisions with strategical character, the customer should especially pay attention to the strategical issues.

In a next step, the dimensions of the classification framework should be improved in order to ensure a selective differentiation. Furthermore, it has to be reflected on adding more dimensions to the framework. Besides improving the classification framework, effective methods and tools have to be developed in order to facilitate the consideration of the classified lessons learned.

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