IS OFFSHORING A SMART FINANCIAL MOVE?

BY
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Executives say offshore work is a strategic effort

In public discussions of offshore outsourcing, it is often described simplistically — threat to jobs, essential to growth, cost-saving tool.

Executives from five Massachusetts technology companies approach offshoring more thoughtfully, frequently taking positions that differ from stereotypes. In interviews for this article, executives said that offshoring helps companies grow but brings its own set of challenges.

Peter Vicars, CEO of Chantry Networks, says, "We must evaluate how to gain the best advantage in our global economy. Resources you leverage offshore can create jobs and competitive advantage back home."

This is reflected in the growth of offshore IT services:

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Kris Canekeratne, Virtusa

According to IDC, their value will increase from $16 billion in 2004 to $46 billion by 2007. "For the first time, technology and education let us manage knowledge workers globally," said Kris Canekeratne, CEO of Virtusa, a Westboro-based outsourcer. "Companies are using this to be more nimble and competitive."

While outsourcing has been labeled a "quick fix," executives say implementation can be harder than it looks. Mike Pyle, senior vice president of development at Pegasystems in Cambridge, said, "It takes time to put pieces in place and build trust. You take advantage of plentiful, cost-effective resources, but expect mixed success as you learn."

Paul Meredith, vice president technical services at NMS Communications, adds, "I feel for someone who tries to lower costs by suddenly replacing local resources with distant resources. It's a mistake to expect immediate results." Executives point out that in early stages, redundant operations, productivity loss and training offshore teams can increase costs and complexity.

"If people tell you that outsourcing is just a program for saving money, they're missing the point. The real question is strategic - where is the talent and how do you best use it?"

Joe Esposito, Solidworks

While some fear that offshoring builds competition overseas, the executives interviewed keep key work local. Several challenged the idea of outsourcing customer interaction.

Meredith explains that NMS outsources maintenance engineering but keeps customer interface in-house. "Our customers always talk to NMS employees. This maintains relationships, controls messages and ensures response time."

Vicars, who has engineering employees in Canada, holds a similar view: "Engineering builds the foundation, but marketing and sales are our walls and roof. Our core value is in customer relationships, which we manage closely."

Protecting technical skills is equally important.

"Competencies and good people are where our value lies. We outsource routine technologies but never innovative design work," Meredith said.

Joe Esposito, vice president of engineering for Solidworks, which has outsourced since startup, said, "We began with supplemental work that breaks out discretely. Then we moved to debugging, still off the regular cycle — only now are we initiating sophisticated work."

"At first there was suspicion. Now the engineers say, 'These guys can step in and do work I don't want to do'," said Meredith, highlighting one advantage of outsourcing for engineers.

According to Pyle, "The person in the trenches needs to benefit from outsourcing. It's very important that outsourcing lets us buffer economic cycles and avoid

Offshoring: Decision is more strategic than financial for companies

layoffs. But you have to anticipate the impact on your employees — if you don't plan and communicate carefully you lose commitment."

Contrary to stereotypes, the executives say no one has been laid off as a result of their outsourcing programs, though they acknowledge it can slow new hiring. Pyle adds, "We have realized that we must add new engineers to replenish our skills."

Canekeratne emphasizes the importance of retraining as he allocates work between his U.S. architects and offshore engineers.

"Where work can be done more efficiently in remote sites, U.S. engineers become project leaders, vertical industry experts or client managers," he said. "We avoid the hire-fire syndrome because as we grow we need all our employees."

Solidworks has used outsourcing to enhance career mobility. The company helped one employee take a job in India with its outsourcing partner and has hired engineers from its outsourcers. Esposito highlights the benefits of "cultural overlap — that makes working relationships easier because our employees are from the same countries where we outsource."

On the other hand, interviewees acknowledge that offshoring can create disruption, resentment and additional costs. They highlight risks like offshore turnover, training and flexibility.

"Turnover in the outsourcer can jerk around engineers at home," Meredith said. "So we measure our partners on turnover and require them to do their own training and take up slack when something slips."

Executives trust their offshore partner with intellectual property, though international IP laws present risks.

"You must do due diligence on your partner, but we don't worry about thievery. It's in our partner's self-interest to make sure we are protected," Pyle said. "We have a strong

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>
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customer base and they want to grow with us."

But when a rogue Indian employee tried to sell Solidworks' software code, Esposito said the risk came from the lack of legal precedents. "We got great cooperation from our outsourcer and Indian investigators, but India does not have a strong body of IP law."

Solidworks works with its partner to ensure security procedures and limit visibility to high-stakes information.

So far no offshoring problems have led executives to roll back efforts. "Offshoring is not a panacea, but I can't imagine not using it to accelerate our performance," Pyle said. "In fact, offshoring is another way of getting access to people we would employ."

Historically, companies have hired foreign engineers into the United. As visas become limited, outsourcing is another way to access engineers in their home countries. In this context, offshoring, though challenging and complex, is an important strategic initiative for Massachusetts technology companies.

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