

# Advantages and Pitfalls of Offshore Outsourcing in the Financial Industry

*What are the advantages of offshore outsourcing – in short: offshoring?*

**Prof. Hirschheim:** Since labor costs in offshore countries are typically much lower, organizations can potentially save a considerable amount in procurement costs. Many offshore vendors, especially those from India, provide well-educated IT personnel and have established world-class facilities. Moreover, they have aligned their practices with the ISO 9000 series of standards as well as with CMM (Capability Maturity Model) certification. In fact, some firms that have outsourced projects offshore claim to have saved 50% to 70% over the cost of outsourcing similar projects to domestic vendors.

*What are the challenges of offshoring?*

**Prof. Hirschheim:** According to a Gartner survey of 219 clients conducted in 2003, more than half failed to realize the expected value from offshoring. Our research pinpoints four important obstacles:

1. Language barriers and cultural differences are often underestimated. We analyzed some offshoring projects of English companies and it turned out that – although you would expect a common language – each side mutually understood only about 90% of the counterpart, resulting in considerable confusion. This problem is exacerbated by the habit of Indian people of not counter-arguing when they differ in opinion with the client or even worse, when they don't understand the customer.
2. Concerning infrastructure, you cannot expect "always-on" public services, for instance during a monsoon. Additionally, customers are troubled by news of theft of code and sensitive data from the vendor's offices. While U.S. firms face more stringent laws for ensuring integrity of records and safe handling of data (for e.g., Sarbanes-Oxley), they find it for instance very difficult to do a background check on an employee in India.

3. In the U.S., we sometimes have detected a "survivor syndrome" among remaining employees that are confronted with loss of their jobs affecting their morale, productivity, and performance.

4. And beware of the physical distance. Some frustrated client managers have been rung up from India in the middle of the night several times while – on the other side – Indian workers complain that they have to stay in the office until mid night to catch someone in the U.S. on the business phone.

And, most importantly: Not all processes are suited for outsourcing – nor for offshoring.

*This sounds in some sense depressing. Is there a way out?*

**Prof. Hirschheim:** We have to recognize these inhibitive factors and counter-act them appropriately. One instrument may be to develop offshore subsidiaries which reflect important parts of the culture of the client. This is a strategy that works for world-wide operating companies and is likely to be suited to the financial industry as well.

*What is the most likely future of offshoring in the financial industry?*

**Prof. Hirschheim:** Practitioners and industry observers alike anticipate that offshore outsourcing will evolve to a maturation state where virtually all stakeholders will be comfortable with the offshoring model. Thus we



*Prof. Rudy Hirschheim,  
Louisiana State University,  
Baton Rouge*

agree with the prediction of, for instance, Meta Group that offshore outsourcing will grow by at least 20% annually. However, in the financial industry restrictions stemming from national or, as in your case, European regulations may hinder these advantages.

*Opponents to offshoring often argue about the loss of domestic jobs ...*

**Prof. Hirschheim:** Yes, this 'doom and gloom' discussion is constantly offered. But just as outsourcing of manufacturing increased the competitiveness of business organizations in the past, offshoring of at least IT and IT-enabled services can contribute to their competitiveness today and in the future.

What is needed is that economies realize enough innovation to be successful. This has placed American industry in the lead position in the global economy and should ultimately create more complex jobs helping to overcome the business frictions when some of the low profile jobs go offshore.

