

Offshoring

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On the evening of November 21st, 2005 at Fenwick and West, LLP members of L'Executive Club gathered for a panel discussion on "Optimizing Your Offshoring Strategy: How to turn the globe to your advantage." "Offshoring" is defined as the movement of some part of a company's operations to a foreign country for the purpose of reducing operational costs or achieving other strategic advantages.

Philippe Courtot, CEO of Qualys, moderated a panel of five executives with experience building teams in Asia, Eastern Europe, Latin America and Canada: Mark Philips, VP of Engineering of Lohika; Franck David, VP of Sales at BOC Edwards; Dan Foody, CTO of Actional; Daniel Delarossa, CEO and Co-Founder of Cyclades and Bernard Morneau, EVP of OSI Soft comprised the panel. The introductory speech was given by Marc Fortier, President of Montreal International.

The panelists were asked to share their views regarding the political consequences of offshoring and to describe personal experiences, potential pitfalls, and tips for success. The Honorable Pierre-Marc Johnson, former Premier of the province of Quebec, and Marc Lepage, General Consul of Canada in San Francisco were among the several distinguished guests in attendance.

Besides lower labor costs, the panelists highlighted many other key themes, including employee retention, financial incentives, quality of life, creativity, workforce qualification and productivity, part time differential, and access to local markets. Additional topics included quality-control concerns, cost factors, privacy and security considerations, intellectual property and compliance responsibilities. Communication, human resources and cultural concerns were among the most frequently mentioned challenges.

Marc Fortier, President of Montreal International, opened the evening by discussing the benefits of offshoring to Montreal. Mr. Fortier suggested, "Rather than just thinking about offshoring to Asia or elsewhere, let's start thinking about near-shoring, or even better, best-shoring in Montreal," raising the issue of how to best optimize offshoring strategy instead of focusing entirely upon cheap labor.

"Montreal has a very good investment climate, highly qualified labor, solid infrastructure, extremely competitive operating costs, an attractive tax structure and perhaps the most important point – a typically North American business culture," Mr. Fortier stated. He later quipped, "When things go bad in India - good luck. When things go bad in Canada, they are easier to fix."

Each panelist then had an opportunity to discuss his thoughts on the political consequences of the trend, as well as to comment on how these consequences shaped their views on its future. Franck David, VP of Sales at BOC Edwards, brought up the

lack of global legislation by noting that “We are playing globally but there are no global rules.”

Dan Foody, CTO of Actional, introduced a different viewpoint. “The moment you try to put in any sort of protection measures, people find ways around it...and it always has a ripple effect of unintended consequences,” said Mr. Foody. He noted that companies getting started with offshoring should be thinking along the lines of specialization. “What do they want their specialty to be that differentiates them from everyone else?” he asked.

Along with Mr. Foody, both Philippe Courtot and Mark Philips, VP of Engineering of Lohika, stressed the importance of taking note that countries are starting to specialize. Mr. Philips said, “We’ll start to see specific countries that will specialize in different technologies and technology bases.” Mr. Courtot concurred with this viewpoint. “We all have to go back and think about what is our competency?” he asked.

Panelists also spoke about their specific experiences with offshoring, including offering suggestions for successful implementation and for avoiding pitfalls. To achieve the best results, the majority of panelists suggested that companies take special care with cultural differences and communication concerns. The consensus of the panel seemed to be that addressing cultural differences was one of the most crucial elements of successful offshoring. Hiring and human resource management concerns were described as areas where cultural concerns would be most critical.

Mr. Philips, whose company has engaged in offshoring in the Ukraine, noted that understanding the mindset and the mentality of the people with whom you’re working is one of the keys to success. Mr. Philips described how in the Ukraine, he learned that employees needed to be motivated by challenging projects. “We can’t treat them like body shops. We can’t just throw any software engineering project their way. They have to be engaged in the project and it has to use their talent and their education,” he said.

Mr. David noted that his company’s attempts to impose Western values, language, and practices on people in China led to tough lessons in cultural awareness. He cautioned, “Management by a foreign person would be a mistake. We have to accept that Chinese people behave [and think differently]. They have a different mindset and a different culture.” Mr. David also brought up the point that companies in the United States have a very different way of rewarding people than in Taiwan, China, or Korea. “Trying to get people in Taiwan training in English – it was a mistake on my part. You need to let them run their facility in their language, and that means that you need to [trust people],” Mr. David continued.

Mr. Foody agreed that the issue of communication was a crucial component in successful offshoring practices. “I think that the two most important things to understand about wherever you’re going to offshore or near shore or best shore, are dealing with and understanding the culture and communication,” said Mr. Foody. He stressed that he’s learned that there is really no replacement for face to face contact, and he cautioned against forming teams that could only communicate via email and phone and had to battle time zone differences. “When working on cutting edge technologies we need to have

good communication between all the parts of the organization,” he said. “The sales models are changing very quickly in our marketplace, so even just having a small item like time zone difference between where we do our engineering and testing is a critical thing for us,” he added.

Both Mr. Courtot and Daniel Delarossa, CEO and Co-Founder of Cyclades, brought up a chief concern – hiring decisions. They each stressed that some of the biggest risks and challenges for them revolved around human resources, specifically the hiring of key personnel. “The biggest challenge in any company is Human Resources,” Mr. Courtot said. He inspired many nodding heads and a few chuckles when he went on to say, “My nightmares are related to HR. The key is to hire good people.”

Mr. Delarossa noted that Cyclades had ironed out many of the kinks inherent in offshoring after opening sixteen branches/subsidiaries worldwide, but that hiring concerns were at the top of his list as well. “Hiring your manager – there’s a [challenge],” Mr. Delarossa said. “Hiring your people, understanding local business, currency situations, legal aspects, lawyers, CPA’s, accountants – especially if you invoice locally,” he added. Yet, even after describing many of the offshoring challenges he and his team had weathered, Mr. Delarossa remained optimistic. “The rewards are promising. Today we can say that we grew sales a lot,” he said.

On a different note, anecdotes about intellectual property scares brought home the growing need to address this potentially dangerous threat. Mr. David, who mentioned that he had had some “scary” experiences with intellectual property breaches in China, described the discovery of an exact replica of an American factory that was operating illegally. According to Mr. David, “Everybody thinks that it’s the cheaper place to be and they can make it cheaper, but that’s not always the case. There are a lot of lessons learned from doing it in Asia. It’s not as easy as we think. It’s not as fast as we think. There are a lot of considerations. One of them is IP protection.”

Bernard Morneau, EVP of OSI Soft, discussed how his company addressed intellectual property concerns. “Our initial efforts with offshoring work were difficult, [especially the] issue of being present on a permanent basis to monitor the progress. Also, we do the offshoring on aspects that do not touch our core technology and do not create IP issues for our company,” Mr. Morneau said. “The conclusion that we’ve come to is actually that it’s working out really well for us. And places that we find that there is a very close cultural similarity, like Montreal for example, we push it further into delegating to these offices,” he added.

The roundtable discussion concluded with Q&A followed by a networking session.