Lessons learned from terminated outsourcing collaborations

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Background: about me

• Senior Researcher at Blekinge Institute of Technology

• 10 years of experience of studying offshore development

• 6 years of industrial experience of working for outsourcing vendors in Latvia

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Background: the stories

Darja Šmite
BTH
Story #1
from Sweden

Nils B. Moe
SINTEF
Story #2
from Norway

Geir K. Hanssen
SINTEF
Story #3
from Norway

Read more here:
N.B. Moe, D. Šmite, and G.K. Hanssen "From Offshore Outsourcing to Offshore Insourcing: Three Stories", In proc. of the IEEE Int. Conf. on Global Software Eng., 2012, pp.1-10
### Background: The Stories

<table>
<thead>
<tr>
<th>Number of developers</th>
<th>~40</th>
<th>~100</th>
<th>~60</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outsourcing destinations</td>
<td>🇮🇳</td>
<td>🇮🇳</td>
<td>🇳🇴</td>
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<tr>
<td>Reasons</td>
<td>Cost reduction strategies and inability to employ in high cost countries</td>
<td></td>
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<tr>
<td>Previous experience</td>
<td>No prior experience with outsourcing</td>
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Why are these stories interesting?

Outsourcing contracts were terminated in all three cases.
Swedish SME outsourcing to India

One of the largest vendors, CMMI-5

Complex system

1 small project

Unmet expectations

Onsite training, better requirements

High turnover

QUIT!!

PRIORITY

LOW QUALITY

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Story #1
Norwegian SME outsourcing to India

Complex system
Virtual team
developing modules

Another Indian
consulting company

Unmet expectations

1. Blamed themselves
2. Planned series of improvements

BEST PRACTICES:
Onsite visits, process
training, frequent
communication

Temporary
improvements

No
domain
skills

Training

Low quality

I quit!!

Low quality

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Story #2
Norwegian SME outsourcing to Vietnam

Complex systems
One team, one module
Consultancy firm
On-site-customer

Reduced delivery After 1 year
Costly bug-fixing

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Summary: problems

- Low quality
- Inefficient work
- Time zone differences
- Inefficient work
- Induced training costs
- Culture clashes
- Commitment problems
- High turnover

- Low quality
- Inefficient work
- Poor communication
- Increase in specification needs
- Poor knowledge of the business domain
- Cultural clashes
- High turnover

Problems targeted by improvement efforts

Reason for not solving the problems

Poor results
Summary: problems

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Future of the companies

- Insourcing to Russia
  - Established a new office
  - Aim: competence and proximity

- Insourcing to China
  - Utilized existing site
  - Aim: proximity to the customers

- Insourcing to Russia
  - Bought a competitor
  - Aim: merge competence

There are still many challenges, but... organizations are able to address them
1. Offshoring is not about cost savings

2. Offshore outsourcing from small/medium companies to large consulting firms did not work

3. Switching to insourcing as a strategy helped to address and control the underlying problems
Recommendations

1. Understand what is the root of problems

2. Evaluate realistically whether it is possible to solve

3. Terminate the relationship instead of spending years and expensive resources by trying and failing
Remark

P.S. Outsourcing might have worked if
• companies would have had experience
• more strict contracts were in place
• larger or more challenging work was outsourced
Thank you for your attention!

Questions?

If you have similar experiences, we are willing to know!
Contact me: darja.smite@bth.se