

DEEP TALENT, VAST DISTANCES

Realizing the full value of
global knowledge workers

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Company leaders are often quick to acknowledge, even revere, the importance of human capital in their organizations. “Our growth depends on people” and similar sound bites echo through many CEO speeches and litter corporate homepages

like the last refrain in a many-versed ballad. Yet, catchphrases and buzzwords offer little clarity when it comes to the ins and outs of building and keeping a workforce. Fast-paced, global markets often pin growth strategies on knowledge work—from complex analytics to product design—and these aren't always easy jobs to fill. As a result, the pursuit of the almighty employee leads many organizations overseas: by 2010, offshoring knowledge work will become a \$17 billion industry.¹ After finding an abundance of available workers on another continent, however, many companies encounter performance shortcomings that seem to undermine their hopes of easing workforce shortages by going overseas. Even as talent management mantras become cliché, making knowledge work productive may represent the first great management challenge of this century, just as manual labor was to the last.²

Opportunities for growth can buckle under the profound challenges of enabling a global workforce. Among the most vexing are:

- Management and staff resistance to working across borders
- Underutilization of staff capabilities in developing countries
- Ineffective handoffs between organizations
- Staff turnover and rapidly escalating wages in developing countries³
- Lack of shared goals and objectives to drive effective collaboration
- Negative impacts on staff morale and working climate

Companies beginning offshore operations soon discover that there are more than oceans dividing their workforce. Cultural and working norms, motivational factors, types of incentives and rewards, and attitudes toward new processes or tools can hinder talent management across borders.

Addressing these challenges and improving the effectiveness of global organizations require answers to two structural questions. First, how will companies manage decision-making—the assignment of responsibilities and roles in a

project—across geographically and culturally diverse operations? The second question concerns workflow: How will global organizations move information, activities and products from one location to another, and how will this impact an organization's effectiveness?

In the absence of formal frameworks or guidelines for managing these issues, companies have taken a variety of approaches. Some acquire businesses that already conduct knowledge work in emerging markets. Others hire people in developing countries in hopes of cultivating a talent pool that will eventually assume middle management positions. Others have opted to move in-house knowledge work to external global service providers. Each of these alternatives can flounder without attention to decision-making and workflow because they lack a formalized structure for addressing challenges as they arise.

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or tools can hinder talent management across borders. Complications abound. As Western interests exhaust the supply of available knowledge workers, ambitious employees embrace an up-or-out mantra, forcing companies to renegotiate salaries frequently in order to retain their workforce. Additionally, the deeply ingrained Asian cultural sense of hierarchy can stifle dialogue with remote managers. Just the same, companies tend to overlook formal integration and governance of workflow across geographic locations. They need to consider the interplay between decision-making and workflow to address the various facets of organizational design, including the alignment of incentives and rewards, the development of knowledge work capabilities, the management of intercultural differences, and the utilization of communication processes and tools.

TWO DIMENSIONS

A model for framing governance and workflow across global operations would look something like figure 1.

The first dimension of managing knowledge work across borders involves workflow, the horizontal axis of the model. Effectively dealing with globalization requires an understanding of how to apportion knowledge work across different locations. Most effective global operations use one of the following three approaches:

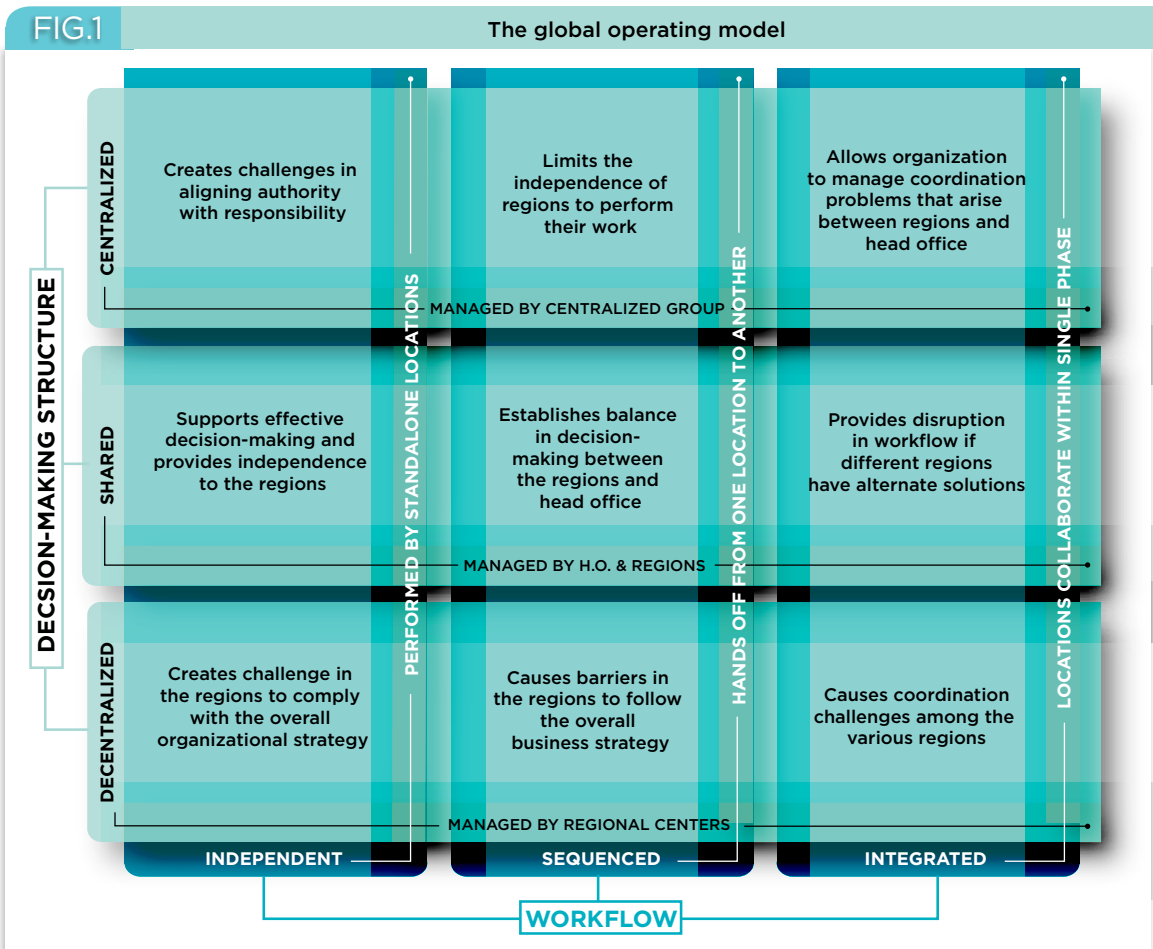


Independent workflow

With this approach, standalone, vertically integrated organizations perform work in different locations. For instance, a pharmaceutical company might organize independent research centers in different locations, each focused on a specific drug or disease family. All research on hypertension drugs might take place in a developing country, research on cancer drugs in Europe, and so on. Because each entity is a stand-alone unit, companies often find this structure comparatively easy to manage – as long as they can also find sufficient talent at each location. One trade-off involves cost, as this model requires duplicated functions at each location.

Sequenced workflow

Here, each location performs one part of an overall process and then hands projects off to the next location. This model could work well for a pharmaceutical company. Genetic research to identify prospective drugs might happen in one country, then an office in a second country would assume drug development tasks. A third location might conduct early-stage testing, and a fourth would complete subsequent trials. Work tends to be uni-directional, with a small number of definable handoffs. This value chain model can be more economical than the independent work model, but it requires a higher degree of collaboration across locations.



Integrated workflow

This approach allows knowledge workers in different locations to collaborate within single phases of a project, even working around the clock as employees pass projects to collaborators in different time zones. Companies generally find this to be the most challenging model because it requires the most coordination, which often calls for sophisticated collaboration and version control tools.

These varying approaches to workflow represent ideals for describing how work is organized on paper. Combinations and accommodations among these models improve their effectiveness in the real world. It is also worth noting that these approaches are not a hierarchy or a maturity model. There is no reason to believe that organizations should pursue increasing interdependency over time. Instead, the nature of the work and the scope of the relationships between locations should determine which will be most effective.

The second dimension of the model deals with the governance that structures decision-making responsibilities pertaining to knowledge work. These responsibilities include financial and capital investment decisions, managing human resources, setting performance expectations, and monitoring quality requirements. Three structures seem to encompass most effective endeavors pertaining to decision-making:

Centralized decision-making

This structure refers to governance coming from a single country, usually the company's home country. Most decisions come from a centralized decision-making group, such as a head office or a virtual decision-making committee.

Shared decision-making

In this model, governance and knowledge work occur at the same location. The company then organizes the decision-makers to direct the project with a single voice.

Decentralized decision-making

Governance occurs on-site here as well. Unlike shared decision-making, however, these decision-makers act independently of one another.

The many facets of workflow and governance go a long way in determining the outcome of an offshoring program. Companies have to balance the integration of people and resources across cultural and geographic divides and maintain the ability to control an organization across several fronts and manage performance. It's all in the structure.

WORKFLOW AT WORK

A North American hardware and software developer decided to move most of its entry level engineering workforce over to Asia in an attempt to reduce costs. The existing U.S.-based workforce remotely managed and developed their colleagues overseas. Workflow, in this example, was integrated across levels of U.S. management and the Asian workforce, and decision-making was centralized in the United States.



In practice, however, things did not go well. Morale suffered and turnover became an expensive problem. Asian employees plugged along with the same work as their U.S. counterparts, but began to wonder when they would ever be able to manage their own work. They also believed that their inability to interact with clients stunted their personal development. At the same time, Western managers saw the ranks they climbed now operating at a fraction of the cost from across the ocean. With good reason, they began feeling insecure about their own positions. Rather than trying to integrate with the Asian office, Western workers tried to improve relations with their bosses at the expense of their offshoring operations. Time difference and language barriers became ongoing problems that were never really addressed, so frustration rather than opportunity prevailed in their offshoring program. Workers on both sides of the pond began asking the obvious questions about career paths, and the company couldn't come up with a good answer.

A second Western technology company wanted to grow its global presence and maintain cost competitiveness, so it developed an offshoring program in India

that used an integrated model for product design and coding projects. Interestingly, they developed a rigorous talent model that divided workers across geographic locations into product-focused teams. Rather than organizing its workforce based on function (teams of coders working with teams of designers), the company created teams based on the needs of a specific project. Managers simply needed to specify which work tasks were required by a given project, and staff

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with the necessary skills would be assigned, which improved their ability to develop several products simultaneously. The company divided job domains into a detailed list of tasks and requisite skills. Staffing decisions could

then consider cost requirements. Overall, the company reports that this staffing model has worked well.

By spreading work across many countries, the second company reduced the opportunity for animosity along specific geographic lines. Yet, much of the discontent among Asian workers in the first company focused on a lack of opportunities for promotion. The second company didn’t use straightforward promotional paths; instead, it left career progression undefined, accepting a high level of turnover among its lower-cost workers. Working for a big, brand name company carries a great deal of cultural and professional weight in India. Many employees agree to lower salaries in exchange for strong résumé lines and prestige. This made it easy for the company to recruit replacements using their well-known brand, but harder to retain the talent they already had.

Combining sequenced or integrated workflow with centralized decision-making may have many advantages, including being easier to launch, but it appears to raise many questions in the area of career paths. This combination can lead to perceived professional dead ends for offshore employees and Western managers alike: offshore employees bemoan limited prospects for climbing the Western corporate ladder, while Western managers worry about shipping career paths overseas.



GOVERNANCE AT WORK

The divergence of decision-making models had interesting implications for two pharmaceutical companies. The first, a North American pharmaceutical giant, saw India as an opportunity to reduce costs and deepen its talent pool, so it relocated its clinical data management center. The center’s responsibilities included analyzing and cleansing clinical data and creating reports to support clinical trial evaluation. Its approach combined a sequenced workflow struc-

ture and centralized decision-making – a head office issued requirements to teams. Several challenges arose due to insufficient investments and inadequate consideration of cultural differences among the workforce. Most notably, work produced in the offshore location did not always satisfy the expectations of the home office, and challenges were not communicated or resolved in a timely manner, resulting in significant delays. Failure to provide training programs, international experience and defined career opportunities to the center’s employees hindered productivity and morale. It also failed to align salary structures with the local expectations. Workers realized that “low-cost centers” imply they’re working for less than their Western counterparts. At the same time, rewards, bonuses and other perks like cars and accommodations are a big deal when determining compensation. The operation did not deliver against its expected outcomes, resulting in high turnover, loss of quality and credibility, and an eventual management decision to close the facility and out-source its operations.

In another example, a major European pharmaceutical company also sent its drug development operations offshore, but with different results. It opened two centers in Asia to cut costs and address critical talent gaps. It gave these centers responsibility for preclinical and post-drug-development support. Based on employee skill sets, the centers adopted three different approaches: sequenced workflow for statistical analysis, integrated workflow activities across preclinical trials, and independent workflow for medical writing projects. All were governed by centralized decision-making from Western headquarters. To date, the results from all three operations have been good.

The contrast between the two pharmaceutical companies is striking. The second, more effective approach paid substantial attention to how different types of work were organized. The first company’s sequenced approach may have been appropriate, but its decision-making—too tightly controlled from the center—did not allow the offshore organization to flourish. As the second company’s situation shows, central control is not a prescription for failure. However, careful attention must be paid to how control is shared across locations. Spreading control of decision-making too thin across a company compromises its efficiency and organization. At the same time, tight, centralized control can constrict the development of offshore operations. Ultimately, companies need to strike a balance between these two extremes so that offshore operations are governed enough to perform and flexible enough to develop.

PLANNING STRUCTURE AND CONSIDERING TALENT

From these four case studies, the mixed results of globalizing knowledge work are very evident. These representative effective and ineffective approaches to complex offshoring programs shed some much needed light on a few important points about organization models:



- The independent model appears easiest to operate if the requisite talent exists in one location because it requires less interaction across borders. However, this is usually the most expensive approach.
- Sequenced and integrated workflows require greater degrees of management over the assigned tasks and handoffs between locations. Sequenced workflows require clear break points at which one phase ends and another begins; integrated workflows do not. To make either approach work, management must address how career paths will operate in all locations. This issue is critical to morale, retention and cooperation.
- Independent workflow can coincide with decentralized decision-making. However, it is difficult to imagine how decentralized decision-making could provide adequate governance over an integrated workflow. Closely connected workflow requires more active and consistent leadership.
- Shared decision-making seems desirable, but it requires more time and effort.
- Centralized decision-making works in some cases but not in others. Proximity to end-product markets and customers should determine governance models. For example, if the end users of a product or service are based in the United States, centralized decision-making in the United States is likely the most effective approach because it's most connected to the consumer base. If markets are more diverse, decentralized governance can add flexibility and understanding of consumer needs to address a broader set of expectations.



OFFSHORE FLOW

The financial success of a global organization may well hinge on the ability to manage knowledge work across national borders and navigate a diverse set of personal and professional expectations. Formalizing workflow and governance structures across offices can help knowledge work become more effective and give multinational companies opportunities for expansion while addressing the challenges and growing pains that inevitably arise. Organizations trying to design effective global knowledge work should consider the following actions:

- Analyze how much interaction the offshored work requires, and design an organization to support that interaction effectively.
- Take the time to clearly define the roles and responsibilities of organizations, functions and jobs and the time to help all participants understand those definitions.
- Think through the governance model that is in use. Has it been modified appropriately for the new global structure?

- Build recruiting, retention, performance management, and career development policies and procedures that recognize both local requirements and the inevitability that employees in different locations will need to collaborate and will share information.
- Align existing incentives and rewards across the global knowledge workforce. This does not mean that all people in all geographies are treated exactly the same, but the system should be perceived as equitable.
- Proactively monitor working relationships across borders and hand-offs in the value chain to determine how effectively they are working, and make any necessary changes quickly.
- Provide opportunities for face-to-face interaction between workers in different geographies to promote relationship building.

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With this perspective, we believe global knowledge work can rise from being “a good idea on paper” to one that delivers real benefits. The world is ripe with talent, and offshoring work remains an immensely rewarding strategy. It is up to management teams worldwide to put in place the workflows that fully utilize their hard-won talent.

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Endnotes

- 1 2006 Report by GlobalSourcingNow – Offshore Outsourcing Research Firm by Evalueserve
- 2 Drucker, Peter. *Age of Discontinuity*. (Transaction Publishers, 1992)
- 3 Annual labor costs for a senior engineer range from \$150,000 to \$200,000 in the United States, compared with \$30,000 to \$40,000 for equivalent talent in India, or one-fifth of the U.S. cost, according to Ayan Mukherjee, Wipro Ltd.’s North American vice president for R&D services



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