



RESEARCH REPORT

Offshoring: A New Business Strategy in the I-O Psychology Consulting Industry?

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Virtually every US-based company is considering outsourcing one or more business functions offshore, or is already doing so (Babcock, 2004). Research by Booz Allen Hamilton (2003) suggests that companies can save 40 to 70 % in labor costs by offshoring. Leading this trend are large corporations like Procter & Gamble, which first piloted offshoring in information technology in 2001, and ended up with nearly \$28 million in savings during the first year alone (Hoffman, 2005). Up until 2006, offshoring was largely opportunistic and championed by a few brave managers who oversaw a particular business function (Lewin, Massini, Perm-Ajchariyawong, Sappenfield, & Walker, 2009). But the tables have turned! Offshoring is now a main topic in the boardroom as an organization-wide strategy to increase organizational flexibility and service quality.

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We surveyed 44 organizations and interviewed leading experts in the field to examine the offshoring trends in the Industrial-Organizational (I-O) psychology consulting industry. Most survey respondents (75%) were US-based managers and executives who hold a Ph.D. in I-O psychology. Data came from organizations of all sizes, with an equal number of small (less than \$5 million in annual revenue) and large (more than \$100 million in annual revenue) companies; mid-sized companies (between \$5 and \$100 million in annual revenue) were less represented in our sample. Forty-percent of the surveyed organizations were multinational. The organizations were primarily involved in the areas of employee selection (45%), organizational development and change (39%), psychological testing and measurement (36%), job analysis/competency modeling (32%), and performance management (25%).

Our research indicates that 18 % of the surveyed organizations currently offshore tasks related to I-O psychology or plan to do so in the next 12 months. The most commonly offshored tasks include adaptation of tools for new markets,

statistical analyses, development of new tools, configuration of existing tools for new projects, report writing, developing training modules, observing and scoring behavioral simulations, and content analysis of qualitative data. "Although psychology companies are experimenting with offshoring, the percentage of work that goes offshore is still extremely small" says Bill Byham, Chairman and CEO of Development Dimensions International. He continues, "From here, there is no other way for offshoring but to go up to maybe 10 to 20 percent of the work".

Drivers of Offshoring

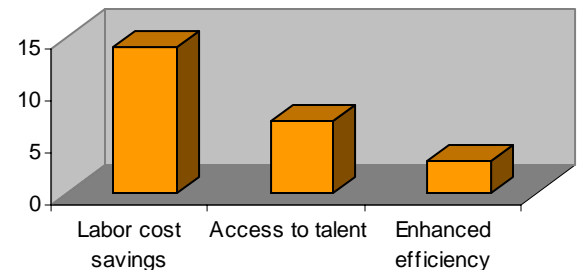


Figure 1

As seen in Figure 1, our research shows that the most commonly cited driver of offshoring in the I-O psychology consulting industry is cost savings. The economic recession may explain such a focus: budgets are tight and I-O practitioners are getting laid off. Caroline Paxman, Chief Product Officer at PreVisor says, "Most I-O firms are laying people off but the amount of work is often staying the same, so they may be looking for cheaper alternatives". Outside of I-O psychology, business experts caution that a narrow focus on cost savings may not be sufficient for a successful offshoring strategy, as executives should be looking to add long-term value to their companies (Lewin et al., 2009).

"There is no other way for offshoring but to go up" says Bill Byham of DDI.

One such added value is enhanced efficiency through business process redesign and better utilization of organizational capabilities (Lewin et al., 2009). Business process redesign should be a part of every offshore implementation; it allows for a close examination of the current business process



and leads to improvements in coordination, process integration, and ultimately efficiency. “Much of consulting is holistic and so it is difficult to break down the process” says Byham, so business process redesign may be especially challenging. Enhanced efficiency came last in our survey and was mainly focused on increasing speed of work by using time zones to business advantage.

The second most cited driver of offshoring in our research was access to talent. Friedman (2005), in his book *The World is Flat: A Brief History of the 21st Century*, observed that the developing world offers highly skilled and motivated workers. Specific to I-O psychology, there are 3 universities in Romania with a strong I-O psychology emphasis that produce graduates with similar training as their U.S. counterparts (Ilie, Ispas, & Ilie, 2007), 20 universities in Turkey offer courses in I-O psychology (Sinangil, 2006), and many graduate programs in Chile prepare students for work in I-O psychology (Mladinic & Rodrigues, 2009). In addition to comparable skills, professionals from overseas offer multilingual capabilities and a multi-cultural perspective. In Slovakia, a recent EU member state of 5.4 million, speaking three to four languages is the norm among university graduates. Many Slovak professionals are fluent in Czech, English, German, Hungarian, and Russian. As is the case within Europe, the very small proximity to other nations instills a multi-cultural perspective in the people. With increased internationalization of I-O consulting, it is only a matter of time when consulting firms begin to fully leverage such global talent.

Offshoring, of course, doesn't come without a cost. It has been an emotional topic with much backlash from the public, unions, and politicians. In addition to the fears of losing American jobs, there are geopolitical concerns, differences in business practices, and issues with fluctuating currencies, as we have experienced very recently with the weakening of the U.S. dollar. In our research, respondents identified quality and organization of work as the primary issues in offshoring tasks related to I-O psychology. For instance, competence of the providers, meeting deadlines, and time zone differences were all a major concern. Other respondents also cited language barriers and differences in billing practices as potential drawbacks of offshoring. The lesson seems clear: Successful offshoring strategies require very careful planning!

Making Your Offshoring Strategy a Success

In an economic recession, companies tend to adopt a cautious and defensive strategy. However, business leaders suggest that offshoring remains a good idea even in an economic downturn, as long as it is done carefully (Fersht et al., 2009). Recent evidence suggests that companies continue to implement offshoring strategies, with some even accelerating their implementation plans (Lewin et al., 2009). “Everybody is under pressure to cut costs”, says Byham, “but psychology companies are too small to open up their own offshore facilities”. Byham suggests that “psychology companies should very carefully select an offshoring partner, have a representative on site, and maintain quality control beyond the initial training”.

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The key to a successful offshoring strategy lies in the very first question asked in the boardroom: Should we move any work offshore? Only a careful examination of the business process characteristics that underlie the work can determine whether it should stay on-site or be offshored (Stiffler, 2007):

- **Process value** is the degree to which a process is considered core to the company and contributes to its competitive advantage in the market.
- **Process independence** is the degree to which a process is well-understood, documented, and standardized.

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Together, process value and independence influence the decision to keep the work on-site, move it to a nearshore or remote domestic destination, or move it offshore. Nearshoring means moving the work to a foreign country that is close either geographically, culturally, linguistically, economically, politically, or historically. Figure 2 shows the decision options. When process value is high and process independence is low, the best decision is to keep the work on-site. Offshoring, in such a case, would pose a high-risk to the organization in terms of increased costs and potential losses of market share. Moving an immature process across time zones, cultural differences, and language barriers will only introduce additional training and management challenges and coordination problems, often resulting in decreased efficiency and lower quality. A better strategy may be to wait until the process solidifies, and later experiment with nearshoring or remote domestic delivery - staying domestic but going offsite or virtual. When process value is mid-to-low and process independence is high, the process could move offshore.

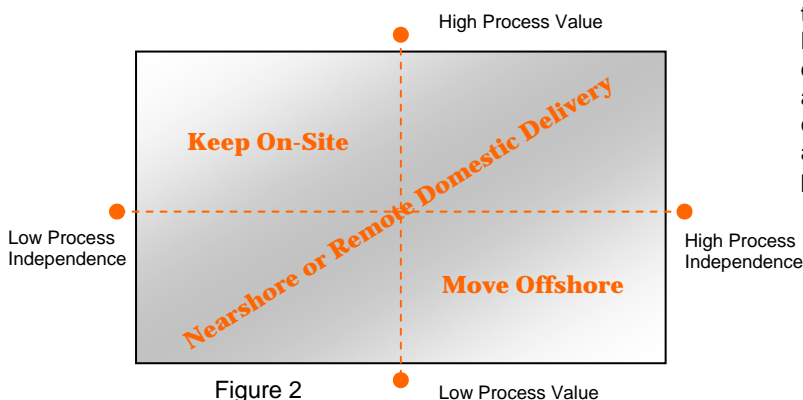


Figure 2

For example, the recent technology-enabled assessment centers pose a good opportunity for offshoring. "Virtual assessment centers happen at the client location and assessors, who are offsite, interact live with candidates using the internet", explains Sandra Hartog, President and CEO of Fenestra, Inc. Developing assessment center exercises, rating tools, or configuring the assessments for a particular project are the core, high-value processes that are best kept on-site. This is the crux of the consulting practice and a market differentiator. By the virtual nature of such assessment centers, they fall right under the remote domestic delivery category. Administration, evaluation of candidate's behavior, and report writing are already performed at a remote location – but mostly domestic for now. We suspect that this is the area of I-O psychology consulting with one of the highest potentials for immediate offshoring. Other I-O psychology work well-suited for immediate offshoring includes statistical and qualitative analyses and preparing reports and presentations.

We echo Byham's prediction that offshoring in I-O psychology consulting is on the rise. If done right, it will provide a competitive advantage to select organizations and help with internationalizing the I-O psychology consulting industry.

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Lanik holds a Master's Degree in Industrial/Organizational Psychology from Colorado State University. He specializes in cross-cultural and international issues and has worked in an HR consulting and organizational research capacity across Europe and the United States. Lanik consulted for several organizations including Development Dimensions International, Sun Microsystems, and Colorado Department of Transportation. Lanik is also an adjunct professor in the Department of Psychology at Metropolitan State College of Denver. He has been a frequent speaker and presenter at international conferences, such as the Society for Industrial and Organizational Psychology, International Congress on Assessment Center Methods, and European Congress of Psychology.

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