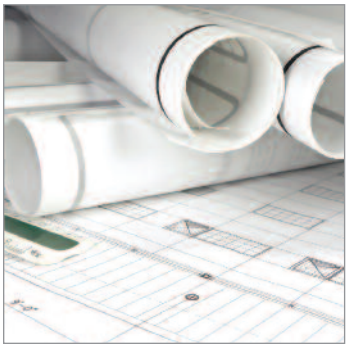
Global Outsourcing Hits Home

The allure of substantial savings through global outsourcing has made its way to the design arena. Here's some advice on how to avoid a cross-cultural design disaster.

Offshore outsourcing is a hot-button political issue. In a 2004 Gallup poll, 60% of the respondents said outsourcing would be "very important" to them in the 2004 November elections, and another 27% said it will be "fairly important." Asked whether they're worried about themselves, a relative or friend losing a job to offshore outsourcing, 60% answered "Yes."



But outsourcing isn't confined to high-tech customer service jobs. It's becoming an issue in the architecture and engineering professions, too. A/E firms are being solicited almost daily by companies in India, China, the Philippines and other countries, that offer to provide design and computer drafting services for up to 60% less than what it would cost to have the same work done by design professionals in the US. Broadband Internet access allows US companies and their providers to exchange drawing files across the web through a number of technologies from FTP to web-based file sharing. Collaborative websites have even been established for interactive drawing development.

These offshore providers offer a broad range of services. For example, a website for a network of outsourcing providers in Asia advertises that by working from sketches and mark-ups, providers will produce drawings on CAD to the standards set by their global clients. According to the site, local providers have the engineering capability to develop design drawings based on schematics, one-line diagrams and single-line plans.

A CONTROVERSIAL ISSUE

While design professionals acknowledge the financial benefits of offshoring, some refuse to participate, citing the growing loss of architecture and engineering jobs to other countries. And A/E work is indeed migrating overseas. A compilation of studies predicts that 184,347 architecture jobs and 29,639 art and design jobs will be outsourced from the United States by 2015.

Other A/Es worry about the long-term impact on the professions. They say that offshoring will have a negative effect on licensure in the long run, particularly when design work is done overseas and then sent back to the US for a stamp of approval from a licensed American architect or engineer.

Professional organizations are beginning to take a stand. The board of directors of the National Society of Professional Engineers recently issued a policy statement saying the outsourcing of engineering should be done only when the talent cannot be found in the US. Representatives from the Institute of Electrical and Electronics Engineers-USA and The Council on Federal Procurement of Architectural & Engineering Services testified before a Congressional committee about the number of white-collar jobs being sent overseas.

THE RISKS

Offshore outsourcing may offer savings, but there are risks. For starters, outsourcing poses quality-

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control problems. The more complex the job, the more difficult it is to get it right with subcontractors from a different culture. In a Gartner survey of 900 large US companies that outsource IT work offshore, a majority complained of difficulty in communicating and meeting deadlines. All the usual problems that plague any subcontracted work—project coordination issues, communication missteps, lack of quality control on design changes—can be magnified many times over in cross-cultural situations.

The risks of communicating solely via the Internet can be problematic, too. "With electronic files, you've added a new layer of problems, a whole new layer of document control," says Michael Ingardia, P.E., of Systems Management Consultants (SMC) in Overland Park, KS. Ingardia, an author of articles and books on the subject, conducts seminars for professional societies on A/E electronic file-related issues. He described a simple scenario in which an engineer receives a CAD file from India at 10:00 a.m., copies the drawing to the project directory and begins to review and finalize the work. Unbeknownst to the engineer, the office in India sends a last-minute update a half-hour later. "If there's a lawsuit five years later, how do you prove which version of the file was actually used, the 10:00 or the 10:30 drawing? If there's an error in the drawing, is it your error, or the fellow's in India?"

Ingardia also worries about the potential for unlimited, untraceable copies made by employees of a firm in India or even users of FTP and project web sites here in this country. "You can't always control how many copies are being made of your plans," he says. "The PC is the greatest copying machine ever invented; every copy it makes is a perfect copy, and there's a PC on every desk."

Additionally, outsourcing increases the risk of loss or theft of intellectual property, as well as sabotage and abuse by hackers and may even attract organized crime. Some observers worry that outsourcing offshore could threaten national security, arguing that access to A/E drawings, mapping data, and other products of the design community can be used by the wrong people for destructive purposes. Some outsource providers are located in countries prone to political instability and even terrorism. Coups, political upheaval or even peaceful changes in government are all factors that can put an outsourced project in jeopardy.

And then there's liability. Regardless of whether the provider is located in Dubuque, Dublin or Dubai, the A/E may have vicarious liability for the negligence of its subconsultants, whom it selected and for whose services it is responsible. Even if the A/E is blameless, the cost—in both staff time and direct legal expense—of having to defend themselves against a claim that resulted from an offshore provider's error could be substantial.

Many firms fail to factor in all the costs of outsourcing work...

Outsourcing also places an extra burden on the A/E's staff and presents supervision issues in that the design professional must recognize the additional effort it creates. Firms must commit to actively monitoring and assessing the quality of the services being provided to them and being incorporated into the final design.

Indeed, many firms fail to factor in all the costs of outsourcing work to other countries. In a rush to save money, they forget to take into account the added financial (insurance premium and deductibles) costs as well as additional management time and effort to properly supervise outsourced work.

Finally, there are professional liability insurance issues. Depending on the nature of the contractual relationship with the offshore provider and the

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language in the A/E's professional liability policy, coverage may not automatically exist for a third-party's work under the policy. There's also the very real possibility that the provider is uninsured, creating a whole new level of liability for the US architect or engineer.

ADDRESSING RISKS

In spite of all of the risks, the reality is there's no stopping economics. Many firms will find it impossible to resist the siren song of promised savings. To these firms, we offer the following suggestions:

1. **Do your homework.** Since you will likely be held responsible for the negligence of those providing services to you, you must take care to select companies that are qualified and capable of providing those services. Research the outsource firm, just as you would any entity with whom you intend to do business. Check references, and, if possible, the provider's financial situation. Find out if the provider has a liaison office in this country. If something goes wrong, who's the go-to person? Think, too, about potential risks of working with firms in politically unstable parts of the world. What will you do if the firm does not—or cannot—deliver as promised? If you find a provider who performs consistently and well, has standards for design quality and efficiency similar to yours and shares your view of service and ethics, consider cultivating a long-term affiliation.

2. **Review your contracts with your clients.** Are there any provisions that would prohibit outsourcing? Have you agreed to any confidentiality clauses that outsourcing might breach?

3. **Take care to properly structure your outsourcing relationship.** Talk to your attorney and an XL insurance specialist: there may be important legal and insurance implications in how the provider is characterized (independent contractor, consultant or temporary employee).

4. **Get a signed contract.** In addition to dealing with payment, copyrights, ownership of documents, insurance, termination and risk allocation issues, the outsourcing contract should address the venue in which any claims will be handled. You and your attorney should consider adding contractual language that specifies that the United States and/or the US rule of law will govern and that venue/jurisdictional issues will be controlled by the state/venue where the project is located. Further, the contract should specify that in the event of litigation, the provider will submit to the jurisdiction of the US and will pay their own related expenses. Finally, you'll need to make certain that nothing in your contract with the provider triggers exclusions in your professional liability insurance policy.

5. **Make sure the provider carries its own professional liability insurance coverage, and that the coverage works with your insurance policy language.** For example, you'll want to ensure that the provider's insurance will be primary in the event of a claim against them, and that your own professional liability policy will be excess to their coverage. Otherwise, your own available policy limits could be in jeopardy.

6. **Talk to an XL insurance agent or broker to make sure you have adequate professional liability coverage.** Are your limits high enough to address your increased exposure?

7. **Be selective about the kind of work you outsource.** Consider limiting it to routine jobs that require little innovation and minimal coordination. In addition, you'll want to ensure you don't release critical or strategic design information. Make sure that you provide clearly

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defined workscope, design requirements, performance goals and acceptance criteria.

8. **Shift your firm's electronic risk management efforts into high gear.** Establish written procedures regarding electronic documents. You and the provider should agree on file formats, system and software compatibility, means of transmission and coordination. You should also address the appropriate use of all electronic communications, ownership, security, copyrights and software licensing rules. Set up procedures for tracking document-change histories, logging transmission of data to and from the provider and maintaining backup copies. Consider removing any electronic seals and signatures from electronic files before transmission.

9. **Be prepared to spend additional staff time, effort and money to properly supervise and coordinate outsourced work.**

10. **Finally, remember that it is your signature and seal on the documents.** You have an obligation to uphold the professional standard of care and your review must be more than perfunctory.

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