Offshoring:
How to Keep Your Western Clients Coming Back

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Abstract

When a young company has a major project with a large offshore client, they want this engagement to go well. They want to get paid, want things to go as smoothly as possible and want more business.

As a manager of offshore teams for large North American companies, I can confirm that future contracts depend on project performance and the interaction with the on shore team. Giving the client what they want and expect is key to maintaining a good working relationship.

So what do offshore clients want? More than just a low cost project team resource, they want a team that operates efficiently, meets the expectation they have and causes them a minimum of issues and problems. If a company can meet those criteria, they can greatly maximize their chances of that lucrative repeat business.

This article will give a brief overview of the offshoring industry, focusing on IT project offshoring. It will then review common problem areas. Finally, it will discuss steps that can be taken to make offshore projects run smoothly.

Background on Offshoring

IT offsoring is major business around the world. India is the largest player in this market followed by China.

The IT Offshoring Industry

- Indian IT exports expected to be close to $20 Billion this year
- Chinese IT exports are estimated to be close to $2 Billion
- The total global IT Offshoring market (including between developed economies) is estimated to be $50 Billion

China

China is also a major player in Off-shoring. Here is a similar list of facts about China:

- Population: 1.32 billion people
- More than 600,000 technical graduates are produced by Chinese universities each year

- Three times the number of tech graduates produced in the entire US (or India)
- Graduates usually have taken English courses
- Starting salary = under $6,000 per year

According to the numbers, China produces many more technical graduates than India. However, these figures may include two year and technical degrees such as mechanics and technicians. The numbers of technical graduates in China are of course still large.

Other Countries

The following regions also have an active off-shoring industry:

- **Eastern Europe (Romania, Russia)**
  - **520 Million USD 2007 outsourcing biz for Romania: an increase of 12% in European business**
- **Southeast Asia (Philippines)**
  - **100,000 people in call centers, 10 Billion industry by 2010**
- **South America (Brazil)**
  - **Outsourcers include: JPMorgan, Estee Lauder, GE, Citigroup, Motorola, Dell and Oracle**

Romania programmers are available for less than what Indian programmers are earning. Russia at one time appeared to be ready to dominate this market with its large pool of highly trained technical people. This may have been slowed by the relative strength of the Russian economy and the value of the ruble but they could be back.
Other countries such as Brazil have large populations with their share of technically savvy people available for work. There will be no shortage of companies & countries offering offshoring regardless of what happens to India or China.

However, managing large projects with team members on the other side of the world is not easy and there are many things that can go wrong. There are numerous examples of companies which have tried offshoring only to abandon it when faced with the difficulties.

The companies with the ability to deliver the best experience to their clients both in quantifiable deliverable and “soft” delivery experience will be able to reap the greatest benefits.

Quantifiable deliverables:

- be on-budget
- be on-time
- deliver the complete scope and quality agreed to

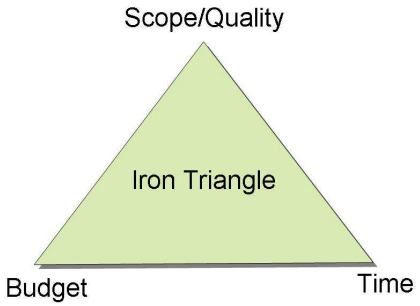


Figure 1 – Project Management Triangle

The need to deliver on these items is obvious. Even if there are problems in other aspects of the project and the team delivers on the expect scope on time and on budget, they will be in a very good position with the client. If they don't meet any one of these criteria, they better do well on the project experience.

Potential Problems in Offshored Projects

Of course, running a project with much of the team half way around the world and who may not speak the same language can have potential problems.

Below are some typical problems a project manager on the ground may run into

1. **Language**
2. **Time Zones**
3. **Communication**
4. **Team Experience**
5. **Culture**
6. **Infrastructure**
7. **Technical Complexity**
8. **Business Complexity**
9. **Client Team Resistance**

Language

Regardless of the amount of language courses the offshore team has taken, there will be some misunderstanding and language difficulties. The client may not be familiar with all the technical and business terms the team is used to. In addition, the client team will use terms that are not familiar to Indian ears.

It never hurts to confirm their understanding. Western people do not mind being asked to repeat their questions or clarify their requests, especially if it avoids misunderstandings.

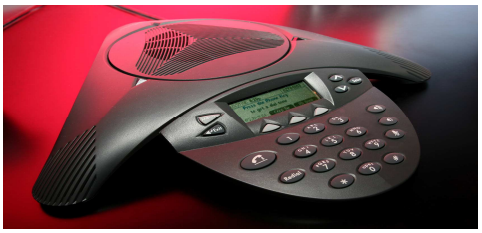
Don't assume the client fully understood all questions or requests. It is easy for information to be lost over phone lines and with time zone differences; communications will have a limited time window. Language will even impact e-mail communication. It may take a long time to write long e-mails and therefore the team may tend to send short e-mails when what is really needed is lots of detailed information to understand issues. This is especially true when they may only have one chance to describe a problem. Get the offshore team to write more rather than less.

Realities of Time Zones

Most offshored projects are completed with the offshore team in a time zone that is close to 12 hours different than the timezones in the west. Therefore, the team's working hours will probably not overlap. For example if an offshored team is in Bangalore, India and home office in located in New York, the times will be about 10.5 hours apart. Therefore, a 9:00 am meeting New York time would be 7:30 pm Bangalore time. When one project I worked on came to a critical point management meetings had to be scheduled 8:00 am and 10:00 pm Eastern time each day in order to ensure issues were communicated promptly. These times were not very convenient for the Indian team either.

It is important to manage the time windows for communication effectively because they tend to be short. Also, if the team can have a lead available to work later on a rotating basis, this can help communication greatly. Poor communication is a factor in most failed projects.

Make Telecommunications Work



It is import to get good conference phones with multiple microphones. Communication will be difficult enough as it is.

Teams should make good use of instant messaging. It can allow back and forth communication between team members without the delays of e-mail. It's also an easy way to find out if the on-shore team members are still in the office before calls are made. Some people like to use it to send private asides to others during phone conferences.

Recapping what was agreed to in meetings and issuing meeting minutes is good general project management practice. It is critical to off-shored projects. Sometimes, the client didn't hear correctly or didn't understand the request. These types of misunderstandings can make some on

the customer side question the competence of the offshore team even though that is not the case. Ensure everyone agrees with requests and then minute the discussions.

Evaluate the Overall Team Experience

In general, some western teams have a very high level of experience. Most large organizations in North America or Europe have been developing systems and managing projects since the 70s or even 60s. In some cases, individual have worked with a system for 15 years or more. Off shoring teams cannot compete with that kind of detailed knowledge and history.

This should color expectations when engaging and planning for offshored engagements. Some organizations expect off-shoring companies to be able to succeed in technical areas where local staff have failed or assign them the most challenging projects. Often this has not worked out as well as intended.

The market is booming, there is high demand for experienced staff and wages are rising. Taken together, these conditions together are a recipe for high turnover. It is necessary to ensure the off shore team, especially the senior positions have back ups in place. It's not unusual to loose several senior team members during the course of a single project. This will reflect poorly in a client's eyes. He may think that the loss of the key people will end up delaying the project and the client may be right. In addition, the appearance of high turnover, especially without good back-up reflects badly on offshore companies. In the west, if a key team member is about to leave for higher pay, serious consideration is made to matching the offer. It is something to consider when a key team member is ready to leave: can the company be sure they won't be paying those higher wages to the replacement in a year or two anyway?

Recognize Cultural Differences

Cultural issues may also have an impact on a project. Western managers can be very blunt and direct and often expect blunt and direct assessments of issues. Of course, some diplomacy is always required especially when referring to the work of individuals. However, for planning discussions or technical discussions, some bluntness is the norm.

Western companies are also democratic to some extent. It is not only the most senior manager who will have a say. The front line project manager, testing managers and lead's opinions will have sway within the organization. It is best to heed their comments and requests as well as the requests of senior management.

Manage the Infrastructure

Infrastructure can also be a risk area and can cause delays particularly at the start of the project.

Project teams cannot underestimate the difficulty in getting the infrastructure set up between the main office and offshore. The team will have to set up a remote office and the access to all of the main office systems from the offshore office. The technology for this has come a long way in the last few years however it is still not necessarily easy and teams should expect some problems.

For example, latency can cause unexpected problems. The few seconds a signal takes to get to India can cause certain systems to fail or not function as they would at the home office. This can apply to internal systems or even to some off the shelf applications the team may be using. Until systems are up and running, the project manager cannot be certain that everything will work seamlessly.

Understand the Technical Complexity

Systems in many large western companies have often evolved over a number of decades. Over this time, design best practices, languages, technologies and the staff responsible for system design have all changed. Of course, documentation was not kept or if available is woefully out of date.

There are critical systems in place in many corporations that have grown far past their original design size. The design when instituted 40 years ago, was not thought out sufficiently. Of course, much changes in 40 years so that kind of foresight may not even be possible.

Systems may have had new technology constantly bolted on. As the latest “new thing” comes along, the individuals responsible wanted to adopt it and use it. Then an even better technology comes along…. Some systems can end up including half a dozen different languages written by different people at different times. This is like having a house with numerous additions and rooms bolted on over the years. If someone tries to fix a light in one room, they find the power goes out in the room two floors over.

A PM can’t underestimate the technical challenges revising or rewriting old technology.

Understand the Business Complexity

Along with the technical complexity of older (or legacy) systems, there can be a major issue with business complexity. Some systems have accumulated years and year of complex business logic into the code. Even the people currently maintaining the system may not understand all the business logic it contains, why it is there or whether it is even still needed. There is usually no documentation available to describe this business process and exceptions in adequate detail.

For a large system, understanding all this business logic, much less, replicating it can be a herculean task.

Client Team Resistance

There may be resistance within the client team to an off-shore vendor. They may feel their jobs will be at risk and may resent or fear the off shore team. This is something the off-shore team and client management will have to tackle. Most organizations handle this effectively. Be sensitive to the issue but don't let it cloud all expectations either. If a client team warns that the proposed approach won't work, it is best to assume their criticisms are valid rather than just a reflection of negative feelings towards the project.

Making an Offshored Project Successful

Now here is my 7 step recipe for a successful offshored project.

1. **Choosing The Project**
2. **Structuring the Engagement**
3. **The on shore team**
4. **Exchanges**
5. **Planning**
6. **Tracking**
7. **Analysis and Design**

Choosing the Project

The following questions should be asked right at the beginning of the planning for an offshored project:

- Is in-depth business knowledge required?
- Is experience with the existing systems or technology required?
- Does the project have complex requirements?

Then this project is probably not a good candidate.

What a company chooses to offshore is as important or more important then how the team manages the outsourcing engagement. For a successful off shored project, it may be best to select a project that is:

- self contained,
- not overly complex
- not requiring too much communication with the on shore organization

Often the project manager will not have the final say in what project is off shored but the suitability of the project should an input into the risk analysis. And, of course, the risk should impact the cost quoted for the work.

Structuring the Engagement

The approach of the engagement will have a very big impact on how the project runs and ultimately how successful it is. There needs to be agreement on who decides how the engagement is defined and the approach that will be used. Will the design and analysis be done off shore? How much control will on-shore have in the approach?

Fixed price means the offshore partner agrees to complete the work for a fixed price regardless of their cost. This shifts some of the risk for the project to the offshore partner. Time and materials means the client only pay for the work the off shore partner does but the client takes on some of the risk. If the project gets out of control and the amount of work greatly increases, their costs will increase.

For fixed price especially, it is critical to have well defined delivery targets. How do you know when the work is done? How many defects are acceptable before the client accepts the system? This should all be clearly defined beforehand.

Management will also need to think about bonuses and penalties. The client may want to put in place a bonus for delivery on time or penalties for late delivery. The client may also want to tie payments to concrete deliverables. The payments aren't made until the goods are delivered. It is better to define that clearly ahead of time than be arguing about it at the end of the project. Of course, contract negotiation is critical

Based on the potential risk areas, it is critical to ensure the right approach is taken for a project. This is especially true with a new project with a potentially large customer. Spending time to do a proper analysis and getting experienced people to help can pay large dividends. It can mean the difference between a successful project leading to follow-on business and a failed project which ends a business relationship. The difference, of course, can be many millions of dollars. A good consultant at this early stage can more than pay for themselves.

Make Best Use of the On Shore Team

Offshored projects require local support to be successful. With all of those senior roles required, offshoring does not necessarily mean a large loss of jobs. Sometime the senior jobs stay on shore. Tell the client staff offshoring can mean budgets may be stretched further, meaning more projects equal more senior roles on shore.

The on-shore team is critical to the project success. The offshore team will need their knowledge and experience. Most offshored teams cannot gain all the necessary experience within the timeframes of a single project. The more support and help available from the on-shore team, the better placed the off shore team will be and the greater the likelihood of project success. The On Shore team can be a pool of experienced, knowledgeable people that would be difficult to replicate. And they cost you nothing!

Ensure Exchanges Occur

With all the potential problems of communications, having team exchanges is critical. This can facilitate communication and issue resolution. Nothing can substitute for face to face communication after all.

During critical periods such as the project initiation, start of testing and other key milestones, having an experienced person working offshore can resolve issues immediately and speed progress substantially. Let's take an example. If the offshore team is setting up a complex system and there are 10 critical point where they run into problems and need questions answered. Worst case, these could take 10 full days to work through. If the right person was on site, perhaps they could get through them in 1 or 2 days. Request a senior client team member come over for critical points in the project.

A client will usually be willing to pay for the costs of sending people west to ensure good communication. This can even become a profit center and a perk for local team members. Be well aware of visa issues, however, and consider getting advice on expediting visas.

Make Sure There Is Careful Planning

Because of the distance issues, communications issues and newness of the offshore team to the client environment, the PM will want to see what progress the offshore team is making to ensure the final deliverable is what is being paid for. Companies don't want to come to the end of the

project and find out that what was built is completely unsuited to the requirements. This is obviously not good for the on shore or off shore team and can be highly detrimental to the relationship. To avoid this, the PM should build demos, iterations or phases into the project plan from the onset. If there are problems or misunderstanding, the team can find out about them early when they are cheaper and easier to resolve.

There are many good reasons to use peer reviews in projects. For an offshored project these become even more important. Have the onshore team review deliverables in detail, to increase comfort, help set the off shore team's expectations and ensure the deliverables meet the client organization's needs.

It is important to plan and replan. Review your plans with the client PM and look for holes. If the planning process misses something major, it will difficult or impossible to recover from that mistake. For the smaller items that are inevitably missed, make sure the plan has adequate contingency built in.

Tracking Effectively

Distance means it is more difficult to understand progress offshore. For offshored projects, the client PM can't walk around to see how things are going. The project manager needs to put in place formal tracking and monitoring. A project plan should be produced for the client PM and updated weekly. % complete should be updated, and late tasks rescheduled weekly, keeping in mind the impact on the overall milestones.

The team should use deliverables scheduled early. They should schedule concrete deliverables throughout the project. Demos can also be invaluable to track progress and demonstrate exactly what work is being done offshore. Demos can focus the team on a short term goal, increase confidence at the client and help identify changes and missed requirements.

Project Managers should consider using iterative or phased approaches. These break the project up into small pieces so the team can see the results earlier and make any necessary adjustments for future phases. The biggest risk is that at the end of the day, the deliverable from the project has serious flaws. The PM will want to know about these problems while there is still an opportunity to fix them.

Perform Solid Detailed Analysis and Design

I have put analysis last because in my view the most important step to a successful project is a detailed analysis phase If this phase is done properly with the right people, the rest of the project

will follow naturally. Conversely, I believe the most spectacular project failures are caused by poor analysis and design of the solution.

Time and money spent at this phase usually yields big returns. Consultants and experienced people can be invaluable in getting the project off on the right foot and preventing the initiation of a project doomed to failure.

How Successful Can It Be?

Of course, the offshore industry didn't grow to where it is without successes. Off-shore projects may involve budgets of many millions of dollars. There are huge pools of work that western companies want to finish more economically. If they can find offshore partners who can deliver good results and meet their expectations, the work will keep coming. If they find the results are not what they want or working with offshored companies present too many challenges, they will simply abandon the effort.

It is therefore important to get those initial engagements right. Watch out for the problems areas:

1. **Language**
2. **Time Zones**
3. **Communication**
4. **Team Experience**
5. **Culture**
6. **Infrastructure**
7. **Technical Complexity**
8. **Business Complexity**
9. **Client Team Resistance**

And make sure the team follows the 7 steps to success:

1. **Choosing The Project**
2. **Structuring the Engagement**
3. **The on shore team**
4. **Exchanges**
5. **Planning**
6. **Tracking**
7. **Analysis**

An offshore project that is successfully managed, with all the challenges involved, is a feather in the cap of any project manager. It is also a critical necessity in growing your company in today's competitive environment.

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He holds an Hons. BSc in Physics and Computer Science from the University of Waterloo, Canada and an MBA from Heriot-Watt University, Edinburgh, Scotland. He is an accredited professional engineer in computer engineering and has been a PMP since 2000.

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