

The Top Five Mistakes In Running Offshore Development Centres

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Leveraging project management for excellence, growth and transformation



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1.1 Abstract

Global companies are running software Offshore Development Centres (ODCs) in distant countries. These companies have augmented their software teams in global Head Office (HO) with teams in ODC. ODCs generally have strong capable teams and have the potential to make much more significant contributions than they are currently making. Global companies must make the right decisions and evolve the right mechanisms to fully realise the potential of their ODCs. Unfortunately, a number of companies are making some mistakes in running their ODCs. We describe the top five mistakes being made by global companies in running ODCs, with Case Studies of US companies like Novell, Cabletron, Cisco, Google, Atheros and leading Tier 1 funded startups running ODCs in India. We also suggest the right approaches that should instead have been adopted.

1.2 Keywords:

Offshore Development Centre, Software Project Management, Organisation Structure

1.3 Introduction


A large number of companies are running software ODCs and have teams spread across their HO and ODCs. ODCs generally have strong capable teams that can make significant contributions to their global companies. Companies must choose the right strategies, make the right decisions and evolve the right mechanisms to fully realise the potential of their ODCs.

Unfortunately, a number of companies are making some mistakes in running their ODCs. Due to these mistakes their ODC contributions are getting severely constrained.

We describe the top five mistakes being made by global companies - having preconceived notions for running ODC; not creating senior leadership layer in ODC; improper HO-ODC management structures; not providing fair opportunities to ODC employees to rise to the global top positions; and overstressing on cost reduction in ODC even at the cost of its deliverables. We share Case Studies from US companies like Novell, Cabletron, Cisco, Google, Atheros and leading Tier 1 funded startups running ODCs in India. We also suggest the right mechanisms that should instead have been adopted.

1.4 Lack of Knowledge & Preconceived Notions of Running ODC

It has been observed that sometimes the company top management either has lack of sufficient knowledge or has some preconceived notions about the work culture, management practices/processes, employee sensitivities and ways of running an ODC in the chosen country.



In case of their lack of knowledge, the company corporate management blindly starts imposing the HO norms on ODC. In case of having pre-conceived notions, the corporate management keeps making decisions for ODC as per those notions.

Unfortunately, most of these decisions are wrong since these are based on wrong premises.

Companies should instead get the actual information about the work culture in ODC country and then make their decisions. We have also observed that although some companies do want to gain this information they are using wrong means for this purpose. These means themselves backfire on ODCs, further worsening the situation for the company.

1.4.1 Case Study #1

A US company had an India ODC. Growth aspirations of engineers differed among these two countries. Engineers in US want to be specialists in their domain and gain long experience before switching roles. Hence, they remain in technical role for many years (say, 14+ years) before deciding to switch to managerial positions.

In India, a large number of engineers look for all-round growth where they can handle positions with both technical and managerial responsibilities. Engineers switch to management positions faster, say at 8+ years experience. Hence the professionals in technical ladder are generally much younger in India than in US.

The VP Engineering in US desired that the ODC must hire *senior* technical persons, equivalent to experience levels in US. ODC tried hard to find very senior engineers. However, most of such senior personnel in the industry were handling management roles. Further, even if senior engineers were available, their experience was not totally relevant to the technology domain of company products.


Hence, ODC Head wanted to hire engineers with lesser experience, but with all experience being relevant to company's technology domain. However, VP Engineering refused to relax the experience requirement. In desperation, the ODC Head used an ingenuous way to satisfy the VP Engineering. He hired senior engineers with 8+ years experience even if they had only half or lesser experience relevant to the company's technology domain!

VP Engineering was satisfied by this convoluted solution, since he was just concerned about experience levels of engineers. However, the solution was obviously inefficient for the company. The ODC could have better hired young engineers with just 3-4 years experience, but totally relevant to company's technology domain. These engineers would have cost lesser and would have still performed at par with these senior engineers.

Hence, the better option for VP Engineering should have been to just insist on the ODC delivering expected results rather than insisting on the approach to achieve them. The ODC Head should have been given flexibility on hiring a team with right experience levels to achieve the results.

1.4.2 Case Study #2

A company decided to appoint one of its US senior management team members as Managing Director designate for newly created India ODC. His name was yet to be formally announced in India. He realised that he lacked knowledge of running a



company in India. He decided to interact with heads/senior managers of other India ODCs to gain this knowledge.

The right option for this purpose would have been for him to join some CEO Forums in India, where he could learn from his peers. He, instead, devised a convoluted way of achieving his objective. He asked the ODC to announce a fake requirement of hiring Managing Director for the ODC.

Senior professionals from industry applied for the position and he started conducting fake interviews of candidates. The interviewees started getting suspicious when they realised that he was only asking questions like names of good recruitment/PR agencies, new products to be developed, management hierarchy/practices to be followed in ODC, etc. Absolutely no questions were being asked to judge the interviewee's qualification, personality, expertise and fitment for the job.

Later the company made public announcement of the interviewer himself taking over as the Managing Director of ODC. The senior professionals who were interviewed realised that they had been taken for a ride. They vented their anger by discussing this unethical behaviour of the company in some well known Discussion Forums for senior professionals in India. The company credibility was damaged and later it became difficult for it to get senior professionals apply to it for other senior management roles.

1.5 Absence of Local Senior Leadership in ODC

Some companies, in the name of “not losing control” on ODC, refuse to hire a local head or senior leadership team for ODC. All the control vests in the management team in HO.


However, this approach fails to deliver since the HO's management experience of running the company in its own country is not quite relevant to running the ODC in a different country due to major differences in work culture, employee capabilities, employee growth aspirations, management structure, etc.

A local ODC Head is instead required, who has had long experience of heading teams in the ODC country. He would have a deep understanding of local work culture and knows how to manage teams in ODC to deliver the best results.

1.5.1 Case Study #3

A US company decided against hiring a local professional for India ODC Head position. Its logic was that since one of its very senior managers in US is originally a native from India, he “understands” India. The company posted this professional as ODC Head.

However, the person had left India many years back to pursue a career in US. He had spent almost all his career working in US. Further, when he had left India he was just a young engineer. He had absolutely no experience in being a manager and managing teams in India. His knowledge of capabilities of teams in India, work culture, management processes/practices, etc. was very limited or was almost two decades old. He tried to apply his limited and outdated India work culture knowledge for running the ODC, but it obviously failed to deliver in the current environment.



Hence, the company learnt that his originally being from India had only made him aware of the “culture” of India, but not “work culture” in India. Hence he failed to deliver.

1.6 Improper Inter-location Management Structures

Companies must decide appropriate Inter-location management structures between ODC and HO that deliver the best results. The reporting of both the ODC Head and the ODC Senior Managers to appropriate HO authorities need to be sensibly decided.

Companies generally assign the overall responsibility for the ODC to a senior manager (VP or above) within HO. He is a part of the global top management team and is accountable to the company on ODC related matters. He is responsible for overall success of ODC; making strategic decisions about growth of ODC; and for approving budgets for ODC. A major responsibility for this head is to ensure that ODC gives requisite cost saving benefits to the company, as was envisaged at the time of creation of ODC. The local ODC Head directly reports to this person in HO.

Companies must ensure that this critical responsibility in HO is handled only by a Profit Centre Head.

A major reason for the company to run an ODC is cost reduction. Only a Profit Centre Head has the knowledge, expertise and capability to make the right decisions on deciding the responsibilities, activities and growth plans for ODC to give good cost benefit to company.

It has been observed that some companies make the mistake of making the ODC report only to the VP Engineering in HO, instead of a Profit Centre Head. Unfortunately, the Key Result Area for VP Engineering is only to ensure the success of project deliverables, and not achieving high profits by reducing costs. Further, his expertise in handling Profit Centre responsibilities is also limited, since his traditional job responsibilities do not train him for that. He cannot appreciate the nuances of making right decisions to improve company’s cost savings due to an ODC.

VP Engineering also has an engineering team in HO. With limited appreciation of cost saving requirements, he would like to manage projects close to his own location, rather than at a long distance. He would prefer to grow the size of HO team instead of ODC team, increasing company cost.

Hence, the company must ensure that this responsibility is given to a Profit Centre Head and not to VP Engineering. ODC Head must directly report to this Profit Centre Head in HO. Further, ODC Head should also have an interface with VP Engineering, but only for project related purposes.

Further, ODC senior managers are responsible for developing some product modules and their overall product heads are sometimes based in HO. These managers should not only report to ODC Head but should also have project related reporting to Product Heads (say, Directors) in HO. Unfortunately, sometimes companies do not create the right inter-location management structures for this purpose, resulting in manager displeasure, insecurities, and severe impact on the deliverables of ODC.



1.6.1 Case Study #4

A company had a Director in US managing a big project. A large part of the project team was in India and a very small part of the team was in US. As project grew in size, the VP Engineering realised that US Director was not able to manage the large multi-location team.

The company hired a Director in India for managing the India team of the project. The US Director was given responsibility of managing his US team and handling inter-location dependencies of the project.

Since US Director was handling a very small team he felt that his authority had been significantly eroded. He started feeling insecure suspecting that slowly the complete project would be transferred to India. Hence, he decided not to relinquish full control over India team and started resorting to undue means to exercise control on them. He directly started instructing the India team members; started interviewing new candidates for India hiring; ignored India Director on multiple instances, etc.

As was expected, contention arose between the Directors in the two locations. The India Director got frustrated and left the company within a short span of his having joined the ODC. The situation was back to square one, with US Director again having to manage a large team, impacting deliverables.

Instead, the better option would have been for VP Engineering to have a well defined role for US Director that would not have made him feel insecure. The US Director could have been given some major responsibilities in US, say project management responsibility of an additional large team, along with the responsibility of handling inter-location dependencies of this project. The US Director would have then not felt insecure with success and growth of India team.


1.7 Insufficient Growth for ODC Employees

Company should realise that capable personnel are available in all its locations. It must treat all the employees on equal terms. Capable ODC professionals should get full opportunity to rise to the top positions of the global company, even to the global Managing Director position.

Unfortunately, in a number of companies only the HO employees get opportunities to rise to the top positions by virtue of their being located in HO.

A company must ensure, for its own good that its top management must consist of its most capable employees who can make the right strategic decisions for company's success. Company's own interests are harmed if more capable personnel in ODC do not reach the top management positions, and these positions are instead filled by less capable HO personnel, solely based on their location.

However, company must also realise that senior professionals in HO have been working on company products for many years, and hence are more knowledgeable about company's products, technologies, markets, key customers, etc. ODC is generally established quite late in company lifecycle, and hence its employees may have much lesser experience on the same. The company would be taking a big risk if it promotes ODC senior capable professionals to top management positions without their getting enough hold on company know-how, products, markets, etc.



If ODC has bright professionals they would have the talent to pickup new concepts fast. Company must take up the responsibility of grooming these professionals for top positions by mentoring and training them on the company technologies/products/markets; by offloading more complex tasks to them to allow them to hone their skills; and offer them slowly increasing higher responsibilities to prepare them for the challenges for the top positions.

1.7.1 Case Study #5

In a company, the highest technical grade was the “Fellow” Grade. Only the top 8-10 technical architects in the whole company reached this grade. The Fellows, as a group, were responsible for deciding the overall technical strategies of the company. Hence they were effectively deciding the future of the company.


The decision on promotions to Fellow grade was made by a selection committee consisting of current Fellows and Engineering VPs of different product divisions.

The company had been running the India ODC for many years but no one from ODC had ever been promoted to Fellow grade. The ODC had a very capable architect. Over the years he had demonstrated that he was technically more capable than his counterpart architects in HO, including some existing Fellows. His name for promotion to Fellow grade had been put forward to the selection committee repeatedly but the committee invariably rejected his case, year after year.

The ODC had multiple teams. Each team was dedicated to an individual product, with final reporting into VP Engineering of that product in HO. The reason for rejection of the architect was not his merit but a peculiar situation created by this reporting structure. The architect belonged to a product team where its HO counterpart team had no Fellow among them. The HO counterpart team also had an architect who was being considered for promotion to Fellow grade for many years. Each year when the ODC architect's case was being considered by the selection committee, the case of that HO architect was also being simultaneously considered. Since the selection committee had no representative from ODC, the ODC architect case used to be raised by the product VP Engineering. However, the VP Engineering wanted his HO architect to grow to Fellow grade first, since he strongly believed that product architecture needs to be “controlled” from HO. Hence, in the selection meetings the VP Engineering would invariably end-up raising the case of HO architect more strongly as compared to the ODC architect. Since the proposer himself was not raising the case of the candidate strongly, the selection committee invariably used to vote out the ODC architect.

These repeated rejections made the ODC architect feel dejected and he was even contemplating leaving the company.

However, one year the HO architect from the product team got the requisite votes from the selection committee and was promoted to Fellow grade. Interestingly, *the very next year* the ODC architect got promoted to Fellow grade by winning the *maximum* votes from the selection committee based on his credentials. Interestingly, despite the same credentials his case had been rejected for years. The reason was simple – it was the first time that the VP Engineering had sincerely taken up the credentials of the ODC architect in the selection committee meeting, since he did not have to take care of case of any HO architect now.



Hence, even though the ODC architect had the best credentials among all Fellow candidates he could not be promoted for years, solely because of the faulty composition of the selection committee.

If, instead, the selection committee had a representative from ODC (say, the ODC Head), he would have taken up the case of ODC architect strongly even earlier. That would have created a level playing field between ODC architect and HO architect, and only the most meritorious among them would have been promoted first.

1.8 Over Insistence on Cost Reduction

An important reason for running an ODC is to lower the company costs. However, cost alone should not be the only consideration for running an ODC since it can impact its delivery capability.

However, some companies make all their decisions driven only by the cost reduction factor. Over insistence on cost reduction leads to weakening of ODC delivery capability due to inability to hire good talent and employee attrition.

A weak ODC imposes restrictions on the type and size of projects that can be offloaded to ODC, since there is a fear that these may not be successful. Hence, large and complex projects still end up being executed in HO, leading to HO team remaining very large and ODC team always being small. Hence, the irony is that the steps being taken by company to lower its costs end up forcing the company to increase its costs by hiring more employees in HO instead of ODC!

Instead, companies should take a balanced view on all aspects of running the ODC. They should never try to reduce costs at the cost of the delivery capabilities of ODC.


1.8.1 Case Study #6

A company decided to establish an India ODC. It realised that good talent specific to its technology domain was available in a City “A” where salary levels were higher than other Indian cities. The company wanted a significant cost saving and hence established the ODC in another City “B”, which had lower salary levels.

The ODC tried hard for many months to hire senior talent specific to its technology domain but could not hire such professionals in its City B. Further, senior professionals from City A in relevant technology domain were not willing to move out of their city since their families were well entrenched there - with issues like spouse’s job, children’s school, etc.

Only some mid-level candidates from City A applied to the ODC. They had the relevant technology expertise. Since these candidates were getting high salary jobs in their own city and needed to shift base to another city to join the company ODC, they were asking for a significant premium over their current salary levels.

If, instead, these candidates were to take up a job in another company in City A itself, they would have joined at a reasonable hike without asking for a premium. Hence, the irony was that the basic reason for opening the centre in City B was to save costs significantly, but the company was going to end up adding much more significant cost in hiring professionals than a company based in City A!



Since the core purpose of establishing the ODC in City B was high cost saving, the company refused to meet high salary demands of City A professionals. Hence, ODC had to either hire senior professionals from City B with non-relevant technology domain experience or hire freshers from colleges. ODC deliverables were significantly impacted.

1.9 Author's Profile



Vimal Khanna is Founder and Managing Director of mCalibre Technologies. He has over 25 years software industry experience. He is listed in "Marquis Who's Who in the World". He is also Honorary Editor of "IEEE Communications" since 1999. His papers have appeared in leading international journals/conferences, including PMI Global Congress.

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