Offshore Program Management
By neoIT

In the outsourcing of IT functions and business processes, offshore outsourcing has long been advertised as the key to reducing costs and improving performance. Yet, too often companies have the impression that once the contract is signed, the hard part is over. Cost savings, process improvements, focus on core competencies and access to the best and brightest can all be accomplished in offshore engagements, but the level of success is highly dependent on the ongoing management that occurs post contract signing. Competent program management is essential to offshore outsourcing success. So why do so many companies not invest in this critical phase?

Key issue: Why do offshore programs fail? What is unique to offshore program management? How do you put practices in place to mitigate risks and manage successfully for the long term?
Introduction

Offshore outsourcing promises cost savings that go directly to the bottom line, an alluring proposition that companies cannot ignore. In fact, over the last year, we have seen many companies move quickly into the strategy and planning phase and then on to the sourcing phase, moving processes and projects to distant shores. We have also seen these same companies lose sight of the original objectives once they transition to the management phase. This loss of focus is not uncommon in the steady state drudgery of day-to-day operations but makes a negative impact on the company’s ability to manage offshore risk and execute a successful engagement. The lack of focus during this phase combined with a distance from executive-level priorities is why many offshore programs fail.

So, what is crucial to offshore program management? Dedication to transition execution, continuous monitoring of metrics, scope and issues; local program office(s); knowledge of offshore outsourcing best practices; experience in dealing with offshore suppliers; attentiveness to typical pitfalls; understanding of long-term offshore outsourcing contracts – all of these are very important. These are some examples of the unique challenges that set offshore outsourcing management apart from a regular outsourcing engagement.

Transition Management, why is it so critical?

When a company makes the decision to outsource, customer needs, wants, concerns and crises do not stop. Transition management takes place simultaneously with ‘business as usual’. Hence, there is a critical need for an accurate and prompt transition schedule, knowledge transfer process, and regular status monitoring.

In a typical outsourcing deal, the retention of people is high. Frequently people are asked to ‘move’ from the payroll of the company that is outsourcing to the payroll of the supplier. However, in offshore outsourcing this is not the process. Often an entire function is often handed over to a new team – the vendor’s team of resources. Adding to the complexity of the transition is the fact that on top of an entirely new team, the vendor must adjust to the uniqueness of client business processes for individual companies, which are often in contrast. While these transition challenges may be easy for a domestic supplier to adjust to in a typical outsourcing deal, the offshore vendors have not reached a common level of maturity for standard business process delivery despite their exceptional IT capabilities and credentials. Hence each transition is customized depending on the type of work, the workflow model, the rate of transitioning resources and the level of work and information division between onsite and offshore.

Long before the contract is signed, companies need to work with the vendor (and preferably a subject matter advisor) to detail the transition plan. This is not only about setting dates and goals, but also about planning out the steps that it will take to get where you need to be. It is essential to think deeply about how many resources need to be transitioned, time frames, resources needed to manage the transition, the need for a local company representative, the process documentation procedure, training logistics and planning. These are only a small sample of the questions that will need to be answered before embarking on the transition journey.
Outsourcing involves multiple user communities and technical environments. With this increase in complexity, enterprises involved in any outsourcing engagement are sensitive to the potential for enormous failure, and should look for ways to minimize their exposure. Because offshore engagements involve an ecosystem of unique risks, this type of sensitivity becomes more important. Offshore program management responsibilities can be mapped to five strategic competencies (neoIT M5SM Methodology) that include performance, relationship, contract, resource and financial management. Table 1 outlines some common challenges and encountered in an offshore deal under each of these five strategic competencies.

### Performance

**(Client Issues)**
- Lack of user buy-in/acceptance
- Insufficient resources
- Executive sponsorship dissipates as the engagement is no longer seen as part of the overall business strategy
- Lack of subject matter experts available to the supplier team as knowledge resources

**(Supplier Issues)**
- Insufficient resources
- Inexperienced/non-insightful planning

### Relationship

- Miscommunication
- Cultural gaps
- Poor planning for change management programs
- Deficient in coordinated team organization and execution
- Not having demarcated roles
- Unclear responsibilities between client and supplier

### Contract

- Program and service level timelines and deadlines mismanaged
- Incomplete requirements
- Unrealistic expectations
- Changing requirements, scope and specifications
- Engagement is “no longer needed” by the client
- Contract amnesia (meaning nobody refers to the contract or remembers what was in it)

### Financial

- Cost overruns
- Not planning for changes
- Unrealistic ROI analyses and expectations
- Unexpected costs (travel, training, turnover, infrastructure, technology)

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1 The definition of a failed offshore engagement in this context refers to a company that failed to achieve the full potential of cost savings and performance targets outlined in the contract
Resource

- Transition is too fast
- Bait and switch - resources pitched in the contract are not the same as those working on the deal
- Vacation and holiday schedules are not understood or managed
- Buffer staff is not properly planned
- Training program is mismanaged (or ignored)
- Transition resources are not hired or transferred from other projects according to schedule
- High turn-over rates

Table 1: Common challenges encountered under the five offshore program management competencies.

Experts who have navigated the offshore experience through other engagements can help clients mitigate offshore program risks. A good offshore program manager can ensure the success of the contract, in achieving ROI, bottom line targets and cost savings. However, an expert offshore program manager can turn what may have been a negative, drudging offshore relationship into a strategic opportunity for your company to expand the offshore vendor relationship into an extension of the company.

Even though each client believes that their case is unique the majority of all questions, doubts and how-to’s are mapped and have been dealt with before. Offshore program experts are able to anticipate and pay attention to risk factors and make changes before minor issues become serious problems. By assigning program management responsibilities to an expert, the resulting resource issues, missed target dates, cost overruns or other traumas can be avoided, or at least minimized.

An Offshore Program Management Roadmap

Offshore program experts do more than identify risks and develop risk management plans. These experts monitor risk factors throughout the engagements and are prepared to implement risk containment plans as the risk levels fluctuate. As conditions change and evolve, offshore program experts estimate and manage the potential impact in dealing with challenges within each of the offshore program competencies.

PERFORMANCE MANAGEMENT

Managing performance is at the top of the list of critical success factors. And if due diligence has been done well; companies can be assured the vendor has managed service levels to client expectations in the past. However, the past does not necessarily guarantee continuing success.

One of the first steps in the transitioning phase is to map out and document internal processes, information flow and interdepartmental handoffs. Remember, this is about merging the work processes and flow of two organizations. Discipline and organization at this point will lead to an operational relationship that maximizes process efficiency and ensures repeatable over-achievement of performance parameters.

Throughout the life of the engagement, from transition to exceeding expectations, a dedicated offshore program manager can make the difference between “everyday fires” that need to be put out and a seamless delivery. Besides peace of mind, a program expert can contribute to
innovative solutions that help avoid internal/supplier politics or the innate difficulty to see the worldview of the supplier. This native expertise comes from direct experience and knowledge of supplier methodologies, experience with cutting-edge industry and offshore practices and an acute awareness of the client’s business processes. A program management practitioner can act as a sounding board for both the client and the supplier to aid in managing expectations.

In the end, quality depends more on process and governance than tools and technology. Performance management is as much a discipline as eating your Wheaties every morning. Regular monitoring of the status of deliverables, schedules, unresolved issues and a collaborative planning of future work can go a long way in creating an atmosphere conducive to success.

**Expert Do’s:**
- Evolve a robust workflow and process for both organizations
- Agree on service levels in the contract that have a direct bearing on success
- Agree on gap closing process
- Assign a dedicated program manager on-site and offshore that represents, you, the client
- Ensure executive sponsorship, user acceptance and buy-in throughout the engagement

**Expert Don’ts:**
- Assume that thorough due diligence will ensure the supplier adheres to service levels
- Neglect the transition phase—transfer of knowledge, process and expectations is critical to offshore success
- Let small performance issues be ignored. They typically soon become big ones.

**FINANCIAL MANAGEMENT**

Preparation and managing financial expectations in the contracting phase will put a company in a prime position for entering the engagement, but what if preparation isn’t enough? What happens when there are unexpected costs? Regardless of the terms of the contract, continual financial management is important to ensure the financial and commercial considerations that were the initial motivators are met and exceeded.

Unlike a traditional outsourcing program, a lack of awareness for unbudgeted expenses can often derail the budget in an offshoring contract. An understanding of the client’s financial pressures coupled with a perceptive knowledge of supplier resource management strategies can lead to a methodical and efficient framework for (perhaps unbudgeted expenses) such as resource transitions, vacation and cultural holiday coverage strategies, unallocated travel costs, resource training needs, turnover costs etc.

An inevitable challenge met by organizations is addressing how to push the envelope on performance without exceeding budgetary constraints. An expert’s knowledge can help clients formulate a strategy to push for exceptional performance and can also help financially manage other intangibles such as supplier billing practices, vendor rebates and standard freebies. Outside expertise is also helpful in objectively adjudicating which party should pay for one-time expenses that invariably come up over the long-term.

Once the savings start to roll in, clients should expect the offshoring engagement to expand into other areas of partnership.

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2 Freebies refers to items that may be overlooked such as free training to keep resources up-to-date on technologies, free transport during client visits, etc.
Typically, a lot of time and effort is devoted to negotiating an offshore contract. Clients should expect that an equal or greater amount of effort should be devoted to monitoring and managing the contractual compliance. By maximizing the benefits of the time and intelligence that went into the making of the contract, clients can prepare for the conditions that may need to be enforced.

Enforcing contract compliance with periodic reviews will preempt issues relating to questions on areas of responsibility, work processes and performance and delivery. It is important to ensure that compliance reviews are scheduled monthly and client visits quarterly. Lack of contract compliance can lead to disasters such as an application that crashes, affects many end-users and leaves no clear responsibility or accountability for the client or the vendor.

Good contract governance is important to ensuring compliance. It is not feasible to suddenly apply the terms of the contract if it has not been applied consistently from the beginning. It would be like setting a curfew of 9 o’clock for your teenager after you have let them stay out all night. Just like the parent of the teenager, a client without contract guidance and governance loses respect and the ability to enforce the guidelines set in the contracting phase. When both parties have a consistent view and management of the contractual framework a healthy partnership evolves.

**Expert Do’s:**
- Manage financial expectations in the contracting phase
- Expect the offshore engagement to expand into other areas of the business
- Create an awareness around unbudgeted expenses such as resource transitions, turnover, cultural holidays, etc.

**Expert Don’ts:**
- Expect supplier refund programs to automatically be applied to the engagement
- Wait too long to re-negotiate a contract that may not be applicable to the current business situation

**CONTRACT MANAGEMENT**

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**Expert Do’s:**
- Set up consistent compliance meetings as a regular check-point for deliverables, unresolved issues and service level monitoring
- Apply the terms of the contract from the beginning

**Expert Don’ts:**
- Assume the contract terms will be adhered to without careful monitoring
- Forget that quality depends more on process and governance than tools and technology
- Throw away the contract once the deal is signed

**RELATIONSHIP MANAGEMENT**

In the beginning, as the client and supplier follow the learning curve of offshore management, the program manager facilitates people related issues, communicates across cultures, and provides a liaison service for the teams to exchange ideas and relate to work culture differences. An outside expert can ease the difficulties of working in a developing country and
serve as a reminder to the supplier of a client’s very justified expectations. In essence, the
program manager bridges any and all communication gaps and the levels the occasional
bumps in the relationship.

Above all, a program manager is responsible for developing, nurturing and evolving the client-
supplier relationship. A healthy relationship is important for continued partnership and
building trust. While not a substitute for well-defined contracts and service levels, trust is an
important element of successful long-term relationships between buyers and suppliers.

**Expert Do’s:**
- Hand pick the user/IT staff that form the core team from those that have a positive
  stake in your offshoring success
- Be patient, building trust, relationships and effective partnerships take time
- Secure and check executive sponsorship throughout the engagement
- Manage issues pro-actively so that they do not snowball

**Expert Don’ts:**
- Neglect the importance of regular communication vehicles, especially during times of
  transition

**RESOURCE MANAGEMENT**

Resource management is inherently more important in offshore deals than in traditional
outsourcing engagements. It is essential that the quality of resources assigned have enough
domain knowledge, prior transitioning experience and good communication skills, for unlike a
traditional outsourcing arrangement where the majority of the work continues to be carried out
by the same individuals, here the work is being handed over to an entirely new set of
resources.

In offshore outsourcing, companies must dedicate time and effort to establishing a framework
for the management of the buffer resources, training and on boarding of new resources,
allocation of travel, vacation and holiday costs, assignment of key personnel, etc. To
complicate matters, all vendors do not operate in the same manner and there can be a lot of
hidden costs that do not show up on the contract or during negotiations. It is important to have
a good insight into how offshore vendors manage their resources and avoid typical pitfalls.

**Expert Do’s:**
- Specify a key personnel list that cannot be reassigned without prior client approval
- Prescribe a 15-20% buffer for resources
- Allow 2-3 weeks overlap for handover to transitioning resources not just during
  transition but throughout the entire deal lifecycle
- Agree on process of addition and movement of personnel on your projects

**Expert Don’ts:**
- Try to micro-manage resources
- Cut corners on the training program. Remember to invest in both technical/process
  training and management/professional training
After investing time and resources to plan, source and negotiate an offshore contract, clients need to continue to invest in the management phase and not rely on the vendor to carry the relationship. A common mistake is to try to manage the offshore program through the supplier.

In-house expertise or a neutral third-party firm can help maximize the returns from implementation and delivery and make sure the engagement achieves full potential. Apart from management oversight, an independent expert can provide invaluable offshoring expertise to ensure success and add value to the engagement. When recruiting a third party program manager, clients should look for someone with a local presence, supplier neutrality, and experience in delivering offshore (domain specific) deals. The expert should have experience in transition management and approach offshore program management as ongoing monitoring of five key areas of success: financial, relationship, contractual, resource and performance.

Finally, in order to maximize performance and financial returns from offshoring, companies should expect to invest between 4% and 8% of the total deal value annually on offshore program management.
Contact Information

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