

A TELLIAN SYSTEMS WHITE PAPER

# Success Factors In Application Development Outsourcing

Analysis Of Major Factors That Contribute To Outsourcing Success

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## Analysis Of Major Factors That Contribute To Outsourcing Success

Good grasp of the major factors that contribute to the success of Application Development Outsourcing initiatives can result in significant long term benefits for any organization considering outsourcing software development

### INTRODUCTION

There is no doubt that outsourcing as a trend is here to stay. While one may disagree on the exact list of benefits and pitfalls associated with outsourcing, it is a growing and increasingly vital aspect of today's businesses. Among all the business functions of an organization that are typically candidates for outsourcing, Application Development stands out as a single most common business IT function that is selected for outsourcing.

There are several reasons why Application Development Outsourcing (ADO) is most suited for an outsourcing initiative; however that is not the focus of this document. Instead, once an organization decides to outsource software development, there are unique challenges and solutions that the outsourcer should be aware of and take steps to address. A quick research of software outsourcing will reveal that it is not uncommon to come across software development outsourcing initiatives failing for a variety of different reasons. In fact when faced with the outsourcing option, every experienced software veteran will have thoughts of impending disaster cross their minds. While there are several application development success stories, the secrets of such stories are still quite elusive.

In this White Paper, we will endeavor to focus on the key success factors that are important within any Software Application Development initiative. Organizations of all types and sizes can benefit from ADO, however the process through which the decision is reached, the internal challenges the organizations would face prior to and post ADO decision can vary greatly. Factors such as internal culture, industry and domain, geographic location and market conditions, all play major roles in the success of the ADO initiative.

The investment and costs involved in any ADO initiative is typically underestimated by planners in most organizations. These costs go well beyond the actual dollars spent on the initiative: there is the time invested by the client team in training and interfacing with the ADO provider, efforts invested in learning each other's cultures and building relationships etc. Thus the cost of a failed ADO initiative goes well beyond just the dollar cost of the project. Understanding the ADO success factors and implementing ADO best practices can greatly increase the success of any ADO initiative.

The first decision of selecting the provider will have a recurring impact on all aspects of the project

## 1. Selecting the Right Provider

As with any other business relationship, it's important for a company to research providers in detail when considering an ADO initiative. This is especially the case if the ADO provider is based in an offshore location such as India or another country. This preparation will protect a business from making an incompatible choice and enable them to choose a trustworthy, affordable offshore provider to meet their needs.

The success of an outsourcing relationship is greatly dependent upon the first step taken: **selecting your outsourcing partner**. Understanding the impact of the following factors will in large measure determine the nature of your outsourcing relationship:

**Proven Track Record.** It's important to verify that the provider has experience in delivering application development projects on time. Make sure to speak to several customers that have used the provider recently for projects that are similar in size and scope.

**Technology Skills.** *Can the provider demonstrate in-depth experience in the specific technology that they will be developing?* Whether it is Java/J2EE, Microsoft.NET, iPhone/Android, or another mobile platform, it is recommended to understand the extent of a provider's experience, including reviewing and discussing past projects.

**Company Size.** This can be a very important factor that can weigh on a project's success. The idea is not to hire the biggest or the smallest provider as there are pros and cons to both. What one should be looking for instead is whether the size of a company will be a good match for the project. Typically in a smaller company, the provider is heavily involved in the project and personally invested in its success. However, if your project requires scaling quickly, it may be better to go with a larger provider.

**Location.** Where the provider is located in relation to the client, has a big impact on the success of a project. Both the country and specific city they are located in can play a big role in a project's success. For example, choosing a provider from India, China, or the Philippines can each bring a set of different advantages and disadvantages. Generally speaking, providers from India have a better grasp of English and can communicate well in both written form and verbal communication. In India, there are differences in cultures and language skills between the metro areas of Bangalore, Chennai, New Delhi, and Mumbai.

The above are major determining factors to consider when selecting a provider. Be sure to review at least two competing proposals in detail to understand their mind set before selecting a provider. Don't hesitate to ask questions and get thorough responses from your shortlisted providers. *How they handle their responses can be a good indicator of how they will interact once the project begins.*

## 2. Managing Expectations

As an organization makes the decision to outsource software development, there are several expectations that the ADO provider and client develop during the decision making process. These expectations generally cover various aspects of the relationship from the ADO client's side such as how many new features can be added to their software, how it would lessen the work load from the in-house development team, the quality and experience of the ADO provider team and

Managing expectations on all sides can play a crucial role in the perceived and real success of any ADO initiative

certainly the cost savings that can be achieved. From a provider's point of view a new client will mean ability to learn a new product or technology, contributing to the growth of a satisfied client, clearly defined project plan and milestones and not to mention increased revenues.

While both sides of an ADO initiative have different perspectives and different expectations of the project, it is very important that the expectations are pragmatic and achievable. There are several things both the provider and the client can do to make this possible, such as:

**Discuss Internally.** It is very important to discuss internally and address all the potential risk factors that can arise during an ADO initiative. Involve all stake holders and ensure they understand the demands that would be made on them during the startup phase and on an ongoing basis.

**Learning Curve.** Most ADO projects will require a fairly lengthy learning curve. Remember that the Provider is not in physical proximity and do not have access to the resources a typical in-house employee would. So factor in a very generous learning curve.

**Ongoing Training.** The client should plan regular and frequent training sessions to the ADO provider. The training should cover all relevant aspects of the project so the provider is well equipped to do the tasks the client expects. This should include product training, relevant technology training, domain/industry training.

**Expect the Unexpected.** In spite of all the planning things are bound to happen that neither party planned. Outsourcing a critical function such as software development touches so many aspects of business that it is nearly impossible to predict what issues arise. But both parties should be mentally prepared for such eventualities, and be prepared to work around them. For example, the client may need to involve more senior resources than planned, the provider may need to add more programmers than expected or the learning curve may be longer than expected.

**Set Milestones.** Keeping in mind all the above points, set reasonable milestones for all aspects of the project, including benchmarks for the expectations. The milestones should include where the client expects the provider to be in terms of the learning curve, training and other mutual expectations, not just the actual project goals of the ADO initiative.

**Measure Progress.** As the project is underway, continually track and monitor the progress as regards to the various expectations that both parties have. This should include measuring where the provider is on the learning curve, the extent of training etc.

**Revise Expectations.** As the progress is measured regularly, make it a point to review the data constantly and raise any red flags early. There could be issues on either side such, as the level of commitment & participation in training. Make sure to address those issues and don't be hesitant to reset the expectations early, so there is no built up resentment.

From discussing internally as to what the expectations are for the ADO initiative to putting in a systematic process for setting milestones, measuring progress and

Probably the most important factor that is managed poorly in most outsourcing projects.

adjusting the expectations based on results is a very pragmatic way to manage the initiative. There are no perfect stories of ADO initiatives, but if expectations are managed correctly and realistically, the benefits of ADO are out there to be realized.

### 3. Managing Communications Effectively

It is a well understood fact in today's corporate world that in any interaction between two groups, effective communication is of paramount importance. Within an ADO setting the importance of managing effective communications is increased many fold as it is one of the major risk factors in the success of the initiative. Effective communication ensures the flow of knowledge, sharing of mutual expectations and contributes to a well adjusted relationship with the two parties.

There are several factors that ADO practitioners should be aware of that determine how successful the communications are between the client and provider teams. In an offshore ADO context, these factors take on a new dimension. The following are some of those key factors and how they can be managed:

**Language differences.** In most cases, depending on the countries of the client and provider, language differences are a very common issue. Both parties may speak and understand and communicate in the same language, but the differences in accent, delivery, speed and usage patterns can be totally different. As a common example differences in the way English is spoken in USA and Canada is totally different when compared to India. So learning how to communicate with an Indian provider is very important for a US Client. It is also recommended that providers servicing US & Canadian clients learn to understand and appreciate the language nuances. There are differences in ways of greeting, acknowledging, common expressions that both parties should make efforts to bridge.

**Communicate In Writing.** It is well worth the effort to communicate in writing through out the project. This includes communicating regular tasks, features, designs, test plans and scripts, status updates etc. As much as possible documenting everything in writing and communicating via a written medium will reduce the amount of miscommunication. In addition, if there are disputes down the road, it will be useful to go back and refer to what was actually communicated. The provider can send regular status updates in writing so the Client understands what was communicated. Written communication should also be used as a way to document team meetings by recording the meeting minutes and distributing them to the attendees.

**Time Zone Difference.** Differences in time zones are a big factor in most offshore ADO projects and learning to manage them effectively is crucial. It is important to understand the overlap of working hours between the two parties and should be specified in the contract upfront. Typically the providers will agree to being available for a certain number of hours depending upon the time zones. Time difference can be leveraged by developing a good rhythm for communication: as an example, a US provider can send tasks and action requests prior to close of business US time and expect responses at start of business US time if the provider is in the Far East.

**Leverage Technology.** These days there are constant additions to new technologies

available to enhance communication. Typically these technologies do not cost much but provide enormous value. Effective use of technologies can play a big role in fostering effective communications at all levels between the client and provider. Using a preferred audio, video and chat application for day to day communication between various team members can be of great value. Video conferencing for weekly status meetings can be a great way to feel connected with all the team members. Using desktop sharing applications can also be a very effective way to discuss designs, review screen layouts or to help debug applications.

## 4. Bridging Cultural Differences

Cultural differences can be hard to understand and bridge in some cases, but it is a major success factor

Depending on the country and the geographic location of the ADO provider, several studies have proven that cultural differences are a major factor affecting the ADO initiative. Each country has specific cultural uniqueness, so understanding the cultural differences between the provider and client countries and learning to bridge them effectively can go a long way in making an ADO initiative successful.

The following are a few things to consider in understanding and bridging the cultural differences:

**Learn the culture.** The first step to effectively understand a culture is to invest some time to learn about each other's country, the history, the people, the main religions and other cultural aspects. It is especially important for the leaders and stake holders to have a good grasp of the main cultural differences. Having this cultural sensitivity will lead to a better overall relationship between the two teams and hence impacting the project positively.

**Training.** Providers should be encouraged to learn and understand the client's culture. There are several formal and informal training options available to learn the client's cultural aspects. The services of professional training firms that provide education and team building for cross-cultural teams can be utilized for ADO projects with larger teams. Informal sources such as watching movies and TV shows can be a good exercise in self education of each other's culture.

**Celebrating Events.** Far East offshore providers today are aware of western holidays and cultural events. Organizing company events around client holidays and celebrating events such as July 4th Independence Day, Halloween, Thanksgiving, Christmas, and New Year can serve an educational purpose and foster team spirit. On similar lines, clients can organize events at their location that celebrate important provider holidays such as Diwali, Holi or Chinese New Year which will give the client team a learning opportunity.

**On-Site Visit.** Nothing is more effective in bridging cultural differences than spending time in each others company. Effort should be made by both the client and the provider to spend time at each other's location once or twice a year for two to four weeks at a time. The on-site visits have several benefits and will provide each other the ability to understand hands-on the office environment, meet all the players in person and show each other the value and importance of the project. In addition being a guest of the other party will enable social interactions, such as attending lunches, dinners and other social functions that will invariably strengthen the personal bonds.

According to a research study published in 2007 by Outsourcing Center, 28% of practitioners cited cultural gaps as a major risk factor to the success of outsourcing. Managing cultural differences is important as described above can mitigate this factor to a large extent.

## 5. Evangelize the Change Internally

It is important to have people in all levels buy into the project

Success of any ADO project depends greatly on how committed are the stakeholders and even employees that are peripherally impacted by the project. Quite often the ADO initiative can fail if the ADO client staff perceives the initiative negatively. This negative perception can arise from various factors whether based in reality or not. Typical reactions among client players are; the ADO initiative will lead to eventual job loss within the client teams; the software developed would be of a poorer quality; the ADO effort will lead to additional work for client teams etc.

It is a good idea to ensure that the ADO project is well advertised and the benefits promoted clearly in terms the client employees can relate to. Here are some options to consider:

**Executive Champion.** As any important initiative needs, have a publicly recognizable top level executive champion associated with the ADO project, that is responsible for the advocacy and garnering support for the project. This will mean that the project will have a responsible face and not become a dark and support less effort being pursued by greedy corporate interests.

**Clear Message.** Create a clear and focused message as to why the decision was made to outsource, what are the tangible and intangible benefits to the company, to the department and to the individuals. Make sure to cover all the factors that contributed to the decision to outsource in a positive light. While there may be short term disruptions, the long term benefits will typically outweigh short term disruptions. Be very clear and direct without mincing words, as outsourcing in many cases is a competitive necessity and it would be useful to educate the internal community.

**Communicate Regularly.** Create an outreach program that is a participative process and not just a one-way communication. Announce and create a buzz around milestones achieved, new versions released and celebrate accomplishments by the whole team. Open up lines of communication and hold interactive meetings to take in feedback from the community and respond to concerns.

Acceptance of outsourcing is important not only to head off sniping and resistance but also because both the client and the provider need the cooperation of the entire stakeholder community to be successful. Staff that are not involved directly may hold keys to how processes actually work, know where the hidden servers and unsanctioned software are, and understand the shadow support structures that may not be visible in the CIO's office. Experienced ADO providers can often assist clients in developing an elegant, persuasive campaign that reinforces corporate strategies and encourages enthusiasm and cooperation from end users.

## 6. Establish Best Practices

Implementing best practices can add a lot of value to any ADO initiative. While it is an overhead, the long term payoff is well worth it.

Developing best practices is a way to document processes and procedures that have proven to work and to avoid the costly lessons learned from missteps and failed approaches. It is a great way for organizations to become mature and increasingly efficient in its business practices. ADO is a great candidate for developing a set of best practices to guide the process. There is a large amount

of research and documentation available in the area of best practices in outsourcing that are publicly available. Organizations can rely on such available information but should plan to develop its own version of ADO best practices that is tailor made for them.

The documented set of ADO best practices should be a living document that is periodically updated with what is learnt when applying those practices. The following are some of the major ways to ensure the establishment and the following of best practices:

**Document Best Practices.** One of the key steps to implementing best practices is to first create a document that will be used as the best practices guide (BPG). The BPG should be formatted and structured in a way that is easy to understand and follow with sections for various aspects of the ADO process.

**Update Regularly.** The BPG should be a living breathing document that is kept updated regularly. As processes evolve which they invariably will or get improved based on what was learnt, they should become the new best practice. Changes should be reviewed and accepted into the BPG and should be well communicated to the community.

**Cover All Aspects.** Include all aspects of the ADO program including but not limited to: Communication protocols, Meetings, Project Documentation, Application Development Standards, Testing Process, Source Control, Security etc. Include as much detail as possible and plan to use the BPG it on all ADO projects regardless of provider.

**Ensure Adherence.** The value of establishing best practices, is realized when it is implemented and adhered to consistently. For any routine process having a best practice make the process work consistently, reduces errors and costs. So ensure that the current version of the BPG is available for the entire ADO community to access and they are notified of all changes and updates.

Establishing best practices is one of the best ways to ensure success of the ADO program. It also captures the value derived from the program and builds on it over time and can be considered a corporate asset. The best practices can be used with multiple ADO projects over time and in a large organization that has multiple departments pursuing independent ADO initiatives, they can learn from one another.

## Conclusion

Organizations are increasingly opting for outsourcing for various compelling reasons and software application development is routinely outsourced by small, medium and large businesses across the world. The tangible and intangible costs of the transition phase of ADO are huge. Any failed outsourcing initiative can leave both the client and provider teams deeply affected in many ways. In fact many clients have multiple failure stories especially in ADO initiatives.

It is very important for organizations to understand the factors involved in making an ADO project successful. As we have discussed above, success depends on several factors starting with selecting the right provider. Once an ADO initiative is underway, managing expectations and managing communications are key success



factors as they impact day to day functions. One of the typically unforeseen success factor in an ADO, especially when the provider is offshore is bridging the cultural differences. Gaining acceptance of the ADO program within all levels of the provider organization is crucial for success. Finally implementing a best practices based approach to ADO can provide a structured to path to success.

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