ValiCert Case

Case Description and Questions

Exercise - 1

Why every job doesn't translate well overseas

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When sales of their security software slowed in 2001, executives at ValiCert Inc. began laying off engineers in Silicon Valley to hire replacements in India for $7,000 a year. ValiCert expected to save millions annually while cranking out new software for banks, insurers and government agencies. Senior Vice President David Jevans recalls optimistic predictions that the company would "cut the budget by half here and hire twice as many people there." Colleagues would swap work across the globe every 12 hours, helping ValiCert "put more people on it and get it done sooner," he says.

The reality was different. The Indian engineers, who knew little about ValiCert's software or how it was used, omitted features Americans considered intuitive. U.S. programmers, accustomed to quick chats over cubicle walls, spent months writing detailed instructions for overseas assignments, delaying new products. Fear and distrust thrived as ValiCert's finances deteriorated, and co-workers, 14 time zones apart, traded curt e-mails. In the fall of 2002, executives brought back to the U.S. a key project that had been assigned to India, irritating some Indian employees.
Exercise - 2

Founded in 1996, ValiCert specializes in software to securely exchange information over the Internet. Banks use ValiCert’s software to safeguard electronic funds transfers; health insurers use it to protect patient medical records. Although still unprofitable, ValiCert conducted an initial public offering in July 2000, in the dying embers of the dot-com boom. In two months, the stock doubled to $25.25. In 2001, however, sales growth slowed, as corporate customers reduced technology purchases. ValiCert had projected that it would break even with quarterly revenue of $18 million, according to Srinivasan “Chini” Krishnan, founder and, at the time, chairman. Quarterly expenses had grown to $14 million, but revenue was stalled at less than half that figure. Executives began considering shifting work to India. The “motivation was pure survival,” says Krishnan, who left the company after the Tumbleweed merger. India was a natural choice because of its large pool of software engineers. Moreover, both Krishnan and ValiCert’s then-head of engineering grew up in India and were familiar with large tech-outsourcing firms. Some, including Jevans, harbored doubts. The Apple Computer Inc. veteran says he preferred “small teams of awesome people” working closely together. Nonetheless, that summer, ValiCert hired Infosys Technologies Ltd., a specialist in contract software programming, to supply about 15 people in India to review software for bugs and to update two older products. With no manager in India, ValiCert employees in the U.S. managed the Infosys workers directly, often late at night or early in the morning because of the time difference. ValiCert also frequently changed the tasks assigned to Infosys, prompting Infosys to shuffle the employees and frustrating ValiCert’s efforts to build a team there. Within a few months, ValiCert abandoned Infosys and created its own Indian subsidiary, with as many as 60 employees. Most employees would be paid less than $10,000 a year. Even after accounting for benefits, office operating costs and communications links back to the U.S., ValiCert estimated the annual cost of an Indian worker at roughly $30,000. That’s about half what ValiCert was paying Infosys per worker, and less than one-sixth of the $200,000 comparable annual cost in Silicon Valley.

Exercise - 3

To run the new office in India, ValiCert hired Sridhar Vutukuri, an outspoken 38-year-old engineer who had headed a similar operation for another Silicon Valley start-up. He set up shop in January 2002 in a ground-floor office in bustling Bangalore, the tech hub of southern India. The office looked much like ValiCert’s California home, except for the smaller cubicles and Indian designs on the partitions. There were no savings on the rent. At $1 per square foot, it matched what ValiCert paid for its Mountain View, Calif., home offices, amid a Silicon Valley office glut. Misunderstandings started right away. U.S. executives wanted programmers with eight to 10 years of experience, typical of ValiCert’s U.S. employees. But such “career programmers” are rare in India, where the average age of engineers is 26. Most seek management jobs after four or five years. Expertise in security technology, key to ValiCert’s products, was even rarer. By contrast, Vutukuri quickly assembled a group to test ValiCert’s software for bugs, tapping a large pool of Indian engineers who had long performed this mundane work. But the Indian manager heading that group ran into resistance. It was ValiCert’s first use of code checkers who didn’t report to the same managers who wrote the programs. Those U.S. managers fumed when the team in India recommended in June 2002 delaying a new product’s release because it had too many bugs. By midsummer, when Vutukuri had enough programmers for ValiCert to begin sending bigger assignments to India, U.S. managers quickly overwhelmed the India team by sending a half-dozen projects at once. Accustomed to working closely with veteran engineers familiar with ValiCert’s products, the U.S. managers offered only vague outlines for each assignment. The less experienced Indian engineers didn’t include elements in the programs that were considered standard among U.S. customers. U.S. programmers rewrote the software, delaying its release by months.
Exercise - 4

In India, engineers grew frustrated with long silences, punctuated by rejection. Suresh Marur, the head of one programming team, worked on five projects during 2002. All were either canceled or delayed. Programmers who had worked around the clock for days on one project quit for new jobs in Bangalore's vibrant market. Of nine people on Marur's team in mid-2002, only three still work for ValiCert. "The first time, people understand," he says of the project's roadblocks. "The second time, people understand. The third time, it gets to be more of a problem."

In the U.S., executives lurched from crisis to crisis, as ValiCert's revenue dipped further. Each quarter brought more layoffs. By year's end, the California office, which once employed 75 engineers, was reduced to 17; the India office, meanwhile, swelled to 45. U.S. engineers "felt the sword of Damocles was swinging above their cube," recalls John Thielens, a product manager.

Executives knew they could save more money by exporting more jobs. But they were developing a keener sense of how critical it was to keep core managers in the U.S. who knew ValiCert, its products and how they were used by customers. "Even if you could find someone" with the right skills in India, says Krishnan, "it wouldn't make business sense to move the job."

Frustrations came to a head in September 2002, when a prospective customer discovered problems with the log-on feature of a ValiCert program. The anticipated purchase was delayed, causing ValiCert to miss third-quarter financial targets. The India team had recently modified the program, and the glitch prompted U.S. managers to question ValiCert's entire offshore strategy.

Relations had long been strained between the U.S. and Indian product teams. John Hines, the Netscape Communications Corp. veteran who headed the tight-knit U.S. product team, thrives on quick responses to customer requests. As his team shrank to six engineers from 20, Hines was assigned three engineers in India. But he viewed the Indians' inexperience, and the communication delays, as more a hindrance than a help. "Things we could do in two days would take a week," he says.

Vigouroux admits to a touch of "panic" at this point. ValiCert’s cash was running low. "We

Exercise - 5

Questions on the ValiCert Case

1. Please describe:
   - What went wrong?
   - What were inappropriate expectations and decisions taken?

2. What would you propose to ValiCert at this stage, based on what you have learned in the course?