Executive Briefing
The Biggest Challenge to Outsourcing Success - Differences in Processes and CMM
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Summary
Offshore outsourcing is here to stay. There is a heavy influence in many offshore companies to establish thorough processes and attain the certifications to prove they have them it. This often contrasts to US business models which rely heavy on individual performance and adaptability. The two often clash and result in challenged success models for outsourcing projects.

Offshore outsourcing is here and only going to expand. Companies who have not moved to outsourcing, especially those in IT, are merely considered prospects by India and China. Depending on whom you ask, results from outsourcing are mixed. It does not have to be this way. In all the outsourcing projects we have seen that have mixed, or negative, results there is a common element. That common element is the difference in the value placed upon, and the existence of, defined work processes.

Why We Outsource
Below are the most common reasons US companies choose to outsource overseas

- Reduce and control operating costs
- Improve company focus
- Free up internal resources for other purposes
- Resources are not available internally
- Accelerate re-engineering benefits
- Make capital funds available
- Share risks
- Establish a global presence

It is no mistake that "reduce and control operating costs" is at the top of the list. Whenever one says "offshore" or "outsource" to an executive, the first thought running through their head is "cheaper labor cost".

In any discussion about the mixed results of outsourcing, we tend to hear the following comments about why it was not more successful:

- We had to explain everything to the finest detail for them to do anything
- The communication gap caused us to not understand most of what they were saying
- They never "got" our business
- They had a hard time adapting when we made changes
- The time difference was a problem
- There were cultural barriers

We believe there is a more fundamental reason for the mixed results that has greater impact than the above. Many offshore companies, especially in IT, are striving for a CMM level 5 certification, while their US clients are not.

CMM

If you are an executive and you do not know what a CMM level is, you should not consider offshore outsourcing. The Capability Maturity Model (CMM) is a highly valued, and highly invested in, certification that many of the offshore companies seek to attain. Once attained, it takes a heavy investment to stay there.

Before going to far, let's define the CMM certification levels.

Level 1 – Ad-Hoc / Chaotic

Regardless of intentions, these companies are undocumented and in a state of dynamic change. It is typical to have people coming in to work in the morning and not knowing what the day will bring. The company decisions are ad-hoc, uncontrolled and reactive in responding to users or events. Knowledge is more in people's heads rather than written down. Participants in the processes that do exist may not know, or not understand, all of the components that make up those processes. Being a CMM Level 1 does not mean a company cannot produce a product or be successful.

Level 2 - Repeatable

These companies possess some processes that are repeatable and provide consistent results. The organization uses some basic project management to track costs and schedules. Process discipline is unlikely to be rigorous, but does exist. In times of stress, there is an attempt to adhere to the process. Project plans have milestones and these milestones are visible to management. Project plans also track resource expenses, in terms of time and cost. Management acknowledges that not all project resources are interchangeable.

One sees the following in a level 2 environment

- Configuration management
- Quality assurance
- Subcontract management
- Project tracking and oversight
- Project planning
- Requirements management

Level 3 - Defined

These companies have defined and documented standard processes. The processes have been in place and have experienced some degree of improvement. The processes are well known by all levels in the organization. While improving the process is considered, working outside the process is not. This keeps rogue operations in check. The management team mandates that these processes must exist and supports them. Wavering from the process is not a consideration in stressful situations.

One sees the following in a level 3 environment
- Peer reviews
- Inter-group coordination
- Software product engineering
- Integrated software management
- Organization process focus
- Training programs
- Organization process definition

- Organization process focus

Level 4 - Managed

All of the documented processes from level 3 have metrics associated with them. These metrics produce an output that is commonly used by management. Management can adjust the project plans and know what the outcome and downstream affects are without having input from all levels of the organization. The metrics provide them with the data.

One sees the following in a level 4 environment
- Software quality management
- Quantitative process management

Level 5 - Optimized

Companies at this level focus on continually improving process performance through both incremental and technological improvements. The improvements will focus on the processes that have experienced variations. Solutions to problems are often answered by new or modified processes.

A critical distinction between maturity level 4 and maturity level 5 is the type of process variation addressed. At level 4, processes are concerned with addressing statistical data and predictability of the results. At maturity level 5, processes are concerned with addressing common causes of process variation and changing the process to improve process performance.

A few interesting facts about CMM levels:
- The Software Engineering Institute bestows the CMM certifications and performs the audits
- For the companies that received audits and are given certifications, their levels are distributed as to the following:
    - CMM 1 - 17%
    - CMM 2 - 43%
    - CMM 3 - 25%
    - CMM 4 - 8%
    - CMM 5 - 7%
- On average, it takes an organization:
    - 22 months to move from level 1 to 2
    - 21 months to move from level 2 to 3
    - 25 months to move from level 3 to 4
    - 15 months to move from level 4 to 5
- Examples of organizations reaching a level 5 include:
    - NASA: Onboard Shuttle Group
    - Boeing Defense & Space Group (since 1996)
    - IBM Federal Systems (since 1994)
- Most software companies do not even request an audit.

In the US

Most US IT organizations operate at, or near, level 2. This could be in actual certification or by accident. In any company there are going to be some specific processes that operate clearly at a level 3 or 4. At the same time, many of these same companies recently did a complete ad-hoc release to get something out to a client that had to have it *TODAY*.

No one questions that most companies have a genuine desire from all levels in the organization to move the company upward on the CMM scale. But in times of stress, the adherence to process is often outweighed by the demand.

Your Outsourcing Partner
Many offshore firms are performing at a CMM Level 4/5 and have a certification to prove it. Many of those that are not, have a strong desire to be there. It is no small task to achieve this certification. It starts with a commitment from the top management and everyone who works there is trained in what the processes are and how to adhere to them. It is a huge investment in time and capital.

The Conflict
So what happens when a CMM level 2 company, that drifts between levels 1 and 3, decides to outsource to a CMM level 5 company on the other side of the world and that decision was made with the primary reason being to save money and hire cheaper labor? The answer - nothing good.

Outsourcing is not a one stop solution for all of a company's problems. It does not automatically guarantee profit, increase market reach or reduce cost. Too often executives get dollar signs floating around in their head and tell themselves "I can hire two people over there for every one here and cut cost in half while keeping the same productivity." Maybe there are other reasons the company keeps moving back to a CMM level 1.

Combining the not-rated-but-acting-like-a-level-2 with the level 5 will lead to countless man hours discussing the pros and cons of "doing what needs to be done now" with "what is going to be better long term". In other words, any cost savings experienced quickly gets used for all this conflict. This conflict is not happening at the lower tiers of an organization. It happens in the upper echelon, hence making it more expensive.

There is no shortage of people who are quick to say that if an organization does not have a desire to move to CMM level 5, or not already there, then that organization is doomed to fail. These are also the same people who do not have the customers yelling at them about a problem they are experiencing.

Companies Can Make Money at Level 1
There are plenty of organizations who get along quite well without being a CMM level 5, or having the desire to go there. They produce quality products that fulfill a specific business need and make a profit along the way. A higher CMM level does not translate into profits. A high CMM level means you have repeatable, measurable, defined and improved upon processes. The certification is not forwarded to the balance sheet.

There is an expense to raise your CMM level. More process means more people, more documents, more training, more meetings, more software, more servers and more money. There is a lot of evidence that the processes save money down the road. But when time and capital are constrained resources, an executive needs to make some wise and tough decisions about how far to go.

It is not the intent to be anti-process. The point is companies can succeed without being ruled by the process. The success is usually due to the outstanding efforts of a key people. What is wrong with that? There was once a dialog:

Don: *This was released to the client and there was a problem in it. The problem was John forgot to do (insert problem here).*
Nancy: *To keep this from happening again, we could put in the following process to catch it before it goes out. The process is (insert process here that takes 3 different resources and adds a day to the release calendar).*
Don: *That would keep it from going out like that. John doing his job correctly would also keep it from happening.*

There is a mindset that process is the answer to problems that come up. That process needs to be there to stop problems from happening. Process is a hammer and everything is a nail. Often we need the process because of the lack of execution. Companies with good people who think ahead and possess good problem solving skills can thrive in a process-light environment. When good people execute and make good decisions, the problems others have never come up.

So What Is an Executive to Do?
So you are an executive evaluating offshore companies and all of them are showing you their CMM certificates and now you read this. What next? For starters, define your processes and get a serious evaluation of how your company operates at a CMM level. This does not mean you need to bring in SEI auditors. Your own people will know about the processes, or lack there of. Your offshore partner is only going to move from their position so much. There is too much value placed on, and investment into, the CMM certification. They are not going to risk losing it. At the same time, you organization is going to have to upgrade your process. Usually this is tougher on the executive than middle management or lower tiered workers. The executive is the typically the one pushing the envelope to "get this done today" at the expense of the process.

If an organization realizes it is truly ad-hoc and does not want to change, partnering with a CMM level 4/5 is a bad idea. Productivity will suffer when everyone starts spending all their time having debates about process. Find an offshore partner that is not on the CMM track, they do exist, or just stay in house. Spending 100 hours debating the merits of process, which is easy to do, means there was 100 less hours spent on something tangible.

About the Author
David Moise is the founder and president of Decide Consulting. Started in 2002, Decide Consulting has been servicing multiple healthcare companies since then. Healthcare has continued pressing needs to expand access and care and still control costs. Decide Consulting understands that increased efficiency is the answer. For more information on Decide Consulting, please visit http://www.decideconsulting.com