GUEST EDITORIAL

Hidden Benefits of Outsourcing
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There are known benefits in terms of costs of outsourcing IT work to other organizations. The cost benefits accrue as work gets done in cheaper locations, and also due to the fact that work is done by organizations whose core competency is to execute these projects and are hence better at it.

There are, however, other benefits of outsourcing which have not attracted due attention. In this note we highlight some such benefits. Note that these advantages are due to the process of outsourcing and are independent of where the outsourced work is done.

By outsourcing we mean that some software projects in the sponsoring organization, instead of getting executed by in-house teams are outsourced to some vendor. We assume that the vendor doing the outsourced work is a specialist in it and has highly mature processes for executing such projects. (World over, there are hundreds of large vendors whose processes for developing software are at the highest levels of the Capability Maturity Model of the Software Engineering Institute.)

The first hidden benefit is in the area of requirements. It is known that lack of clarity and incompleteness of requirements are a major cause of projects failing. When outsourcing is used, the vendor is going to insist on a proper requirements document and will have the necessary tools and capability to analyze, document, and validate them. The contractual aspects of outsourcing which often require sponsor organization to "sign off" on requirements also force a careful internal analysis before commitment. The net result is that there is a certain rigor in the requirements process at both ends leading to better analysis and requirements. Theoretically this can be done with in-house teams also. However, doing proper requirements takes time and effort and they often appear as "delaying" the start of the development. These seductive attractions tend to short circuit the requirements process to move towards development. Plus the thought that "you can always correct is later", which is present when dealing with in-house teams, also comes in the way.

In addition to better initial analysis, requirements changes are also better controlled and managed. Requirements sometimes change due to changing business scenario and needs

evolving with time. Changes, however, cause havoc to the project and increase the chance of cost and schedule overruns and quality degradation. Changes have been known to cost up to 40% of the total development cost.

In outsourcing, there will necessarily be a formal change management process which at vendor end requires impact analysis of a change request to be done and presented for approval before the change is actually undertaken. This input about the impact of change allows the customer to do a proper and serious cost benefit analysis of the change. This will help ensure that only the necessary changes are made and low priority "wish list" items are deferred. This not only helps in getting the project of higher quality done in time, but also keeps the software lean, which means lower IT asset inventory and lower maintenance cost in future. It should be added, that over the years, the maintenance cost of software often exceeds the initial development cost. Hence, any impact on lowering of maintenance costs pays hugely over the long run.

The second hidden benefit is in the area of visibility into projects. Software projects have been notorious for lack of visibility to the sponsors and managers as progress cannot be shown in physical terms. Hence, often sponsors and managers are forced to rely on the project managers word about progress, and many a times get burnt by having excessive cost and schedule overruns.

The situation with outsourcing is completely different. The vendors, due to their mature processes and metrics collection, are capable of providing clear quantitative visibility on a regular basis in the project. This is generally done by providing regular analysis of the project on schedule, cost, features, risks, etc. With on-line tools, now customers can even get real-time visibility in the projects.

Clear on-going visibility provides the managers the basic information to act in a timely manner, when needed. By this reporting, not only the project manager can take action to correct the course of action, but the sponsor organization can also plan suitably. In other words, the metrics based visibility that vendors provide, which is otherwise hard to get, increases the chances of success, reduce risks, and provides a level of comfort not possible otherwise.

A side effect of this quantitative visibility is that it allows the sponsoring company to set some measurable service level agreements (SLAs) for activities like maintenance, request handling, etc. Furthermore, the customers can even demand from vendors some improvement in the SLAs over time. And as the vendors mature organization is capable of innovating and changing processes when needed, sponsoring organizations can ask for specific process changes to suit their work. This level of process improvement and project and process monitoring is simply not possible to achieve in an in-house situation.

And the third hidden benefit is in terms of improvement of the sponsor's own processes for IT. Even when outsourcing, most companies will have an IT department that is responsible

for providing the IT solutions, but which out sources portions of its work. I.e. outsourcing and in-house development co-exist in most large organizations. As vendors typically have highly mature processes, the sponsor's IT department learns about these mature practices and in time some of the practices get transferred. In other words, improvement of internal IT processes is a side benefit that accrues when engaging with these vendors.

In summary, besides the obvious cost advantages of outsourcing, there are some hidden benefits that outsourcing to a mature vendor provides to the sponsoring organization. These primarily come due to the discipline and processes that are utilized when outsourcing is done and are independent of where the outsourced work is done.