



## Ten Outsourcing Risks

Consider the business risks before signing the contract! Every outsourcing agreement comes with hidden risks. Without the proper consideration and a full understanding of the risk and some preparation to mitigate the risks the impact to the decision maker's career can be devastating. The following list outlines common problems and some mitigation techniques.

### **Risk #1 – Communication**

The number one complaint and reason organizations are unsatisfied with off-site vendors is communication. This can be due to language barriers, time zone differences, or cultural misunderstandings. Communication can be bolstered by allowing ad-hoc communication for quick questions or clarifications. Language differences are the most common communication problem. The difference between speaking a language and understanding a language can be huge. Language barriers, if left unchecked, will have a huge impact on business relations, and that can impact customer satisfaction. Frequent communication is a prerequisite in the early days of the off-site arrangement.

When searching for a vendor, clients should ensure that the vendor has enough onshore resources to help facilitate project and relationship management. Getting onshore resources can also help avoid conflict in language and time zone differences. Recording teleconferences and recording other communication is also helpful for review to ensure that both parties are understood.

Location plays a considerable factor in the off-site model. Today's telecommuting delivers the means necessary to allow off-site resources to meet business demands from anywhere in the world. Current security measures, techniques and processes allow information to be shared quickly and securely. Manufactured products require other considerations including; transportation, trademarks, and IP rights that often get lost in translation and are later found in a competitor's product. Location's impact on communication can be a major detriment of offsite activities. Time-zone impacts, communication gaps, along with ideology and cultural differences can turn a simple off-site project into a management nightmare that seems to be never ending.

### **Risk #2 - Loss of Business Knowledge**

Business knowledge regarding the process or task procedures can be lost with outsourcing. When a contract agreement ends the client may find that key internal resources are no longer available. This can cause a significant delay when transferring from one vendor to another or back to internal resources. The cost of retraining and cooperation from the vendor can be difficult to overcome. Businesses can avoid the hostage experience that can happen because of outsourcing relationships. Steer clear of these situations by retaining key functional and business process knowledge.



### **Risk #3 - Data and Intellectual Property Protection**

Having a plan on how to keep data secure is an important issue. Company data is a critical asset and must be protected. Knowing what channels will be used to transmit data, who will have access to this data, and how it will be secured, are all requirements that should be clearly spelled out during the contract phases of the engagement. Penalties and assessments should be agreed by both parties before implementing a security plan. Install security measures that secure data and provide accessibility only to those with permission.

Intellectual property is one of the most valuable assets of an organization. Protecting such an asset is worth the time and effort. It should be one of the most important steps taken when arranging an outsourcing agreement. When drafting a contract ensure that the agreement clarifies what intellectual property belongs to whom. Keeping information on a need-to-know basis will also prevent data from being leaked.

### **Risk #4 - Service Provider Lock-in**

Becoming dependent or locked-in to an outsourced service provider (OSP) is a possibility if a client is not prepared. This can occur when the price of changing to a different OSP is too costly. The risk of becoming locked-in includes the vendor using outdated software or applications that prevent the client from adapting to standard business demands. Determine that the rules of the engagement clearly define update processes, times and procedures. Having an exit strategy can help avoid these lock-in risks, as well as ensuring that a vendor has the capacity to be flexible to adjust to new situations.

Getting locked into an outsourcing contract because it was the cheapest is a setup for failure. It is important that businesses do not select a vendor based solely on price. If a business is squeezed so tightly for funds that they are cutting corners, a new plan needs to be devised. Otherwise the business may suffer down the road from a contract with a second rate vendor.

### **Risk #5 - Multi-sourcing**

Employing multiple outsourcing vendors may seem like a cost effective approach, but in reality it demands more time and attention. Multi-sourcing can become very complex and burdensome. Instead of focusing on one core outsourcing relationship, resources must be spread out amongst several. If a company does decide to multi-source it must first recognize what supplementary resources will be needed to ensure the additional vendor relationships do not put excessive strain on current resources.

### **Risk #6 - Misunderstanding the Business Case**

While creating a project goal or business case is just the first step to a project plan, ensuring that the vendor understands the business case is essential. When a vendor does not understand the



outlined goals or tasks it will perform poorly. This risk can be avoided by having a clear outline of what needs to be accomplished and presenting that to potential vendors to see if they are capable of meeting company requirements. A client cannot expect to have a poorly functioning internal task run better when it is outsourced thousands of miles away. Refining the task so that it is a clearly defined repeatable job is essential. If cost is a factor then accomplishments should be prioritized so that key functions are fulfilled.

With a clear understanding of the business case a vendor can have a better understanding of the process. Each vendor has a unique way of performing a task, which may be different from internal processes. Clearly understand their processes and procedures and the impacts it may have on business processes. Recognize and avoid delays and service disruptions from cases where the vendor's processes are incompatible with the business. Ensuring that the vendor and internal resources have a clear understanding of what needs to happen and the process to do so will expedite the outsourced process ramp up and reduce errors.

#### **Risk #7 - Underestimating the Complexity**

Whatever outsourcing model implemented there needs to be an internal supervisor serving as the liaison between the client and vendor. This individual must ensure that vendors are meeting expectations, SLAs and deadlines. In some situations organizations may have a hybrid work environment with internal and outsourced resources. Having a work model that can incorporate the various service level agreements, end-to-end operations, and enterprise architecture can help an organization manage the complexity of outsourcing.

#### **Risk #8 - Disruptive Technologies**

With IT developing so rapidly there may be disruptions when updates are made or old systems become obsolete. This same risk is also present for internal resources, but may raise extra concern for outsourced tasks and how the vendor manages enhancements and upgrades. The business must outline in the engagement how the vendor will deal with hardware or software updates, if at all. It must also detail the cost and who will cover the expenses. Ensuring that such questions are dealt with in the contract arrangements can help avoid future conflicts.

#### **Risk #9 - Quality**

A major risk when outsourcing is the effect on service quality. This problem stems from the Quality Assurance and Testing Processes that are in place. There are three main reasons why QA is not performed to ensure quality. The first is that the outsourcing service provider does not have its own QA/testing team, and assumed that the client would complete this internally. The second is that the project had a very tight deadline and QA testing was done rapidly or completely skipped to give development a priority. Finally, QA may have been performed, but a misunderstanding by the vendor of the system requirements caused QA to miss those items. Ensuring that the vendor understands the QA guidelines, that proper documentation and tracking are in place, and that the vendor's standards are compatible with the client's will help ensure a quality service.



#### **Risk #10 – Internal Reaction**

In some cases internal employees will react negatively to outsourced resources. Presenting a plan to show employees the benefits of outsourcing will help dispel any false rumors that may be going around. Some outsourced tasks will help employees, lighten their workload. Having vendors can also bring in new ideas and tasks that can lead to new innovations. Sharing this plan can help keep work morale high. Employees can focus on the strategic projects rather than tactical projects.

In all situations clients should communicate throughout the organization why outsourcing will be occurring and specifically what departments it will affect. Informing employees involved in projects how their work will be affected needs to be considered and planned for. If employee positions are being outsourced they need to be given sufficient notice to find new jobs or get new training. Arranging a meeting for outsourced resources to meet current employees help dismiss any misconceptions. Keeping employees informed can decrease rumors and poor morale.



## About Rosewood Partners, LLC

Headquartered in a rural East Texas town, Rosewood Partners, LLC is a unique management consulting group that builds on its small town roots of loyalty, partnership and commitment. Its team is comprised of industry specialists with centuries of combined practical hands on business experience in the areas of change management, operations management, off-site and staff augmentation services. Rosewood's leadership philosophy is drawn from actually having led teams located all over the world through corporate downsizing, merger and acquisition activities and everyday business operations.

With its down-to-earth small town roots Rosewood believes in keeping things simple. Real-life experience has granted its team members the ability to employ simplicity to solve real world business problems. The straightforward tasks that simplicity demands deliver the reward of constant and consistent results. It is this simplicity that drives Rosewood's OES methodology, Operational Excellence Simplified.