TOP 10 REASONS WHY OUTSOURCING FAILS

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INTRODUCTION

The rich and long history of outsourcing—now around 200 years if you consider outsourcing for agriculture, manufacturing, accounting and now medical opinion—has evolved to be a more complex process over the years. Today's outsourcing is for tasks that are mission critical for enterprises worldwide. These include outsourcing for high-end tasks such as product design and engineering, strategic outsourcing of functions and niche skills that require innovation, and others that can transform processes and make them more efficient. Outsourcing has moved away from mere cost savings, which was the traditional de facto factor for outsourcing, towards value addition or enabling companies to focus on core functions.

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There is no leeway for failure, yet outsourcing efforts continue to fail. Here are our top 10 reasons why:

1. **The objectives of outsourcing are not clear:** Are you outsourcing to reduce costs? Or are you outsourcing to ensure you have access to niche skills, best practices to improve the quality of service or increase functional flexibility? Is your outsourcing effort aimed at meeting unpredictable demands and building variable capacity? Is it your way of meeting market needs faster? Most businesses begin by putting down cost savings as their primary goal. This is a sure recipe for failure. Cost savings should be an outcome of outsourcing, not the key reason. This is because cost savings as the prime objective leads you to the cheapest solution provider in the market, without giving adequate attention to other needs that drive outsourcing. It must be emphasized that outsourcing works best when it is led by strategic reasons and is accompanied by a change in organizational culture or workplace structures.

2. **There is no concurrent change in workplace culture:** Outsourcing must be tightly linked with a change in workplace culture. Very often, businesses outsource tasks, functions and responsibilities that were previously done in-house. This is what distinguished outsourcing from sub-contracting (which can be defined as "associating with providers to do tasks that were never done in-house"). Clearly, if outsourcing is going to affect existing jobs, there will be anxiety in the company that jobs are going to be lost. This will manifest itself as resistance to outsourcing. The anxiety is a result of managers often thinking that "If we get rid of X number of people due to outsourcing, we make a saving of Y." This is

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classic—but faulty—thinking. Getting rid of jobs does not help lower costs in any meaningful manner; burdening your existing team with increasing and unreasonable performance targets and responsibilities guarantees lowered quality, inefficiencies and attrition. The way out is to outsource.

3. **Expectations are not set correctly:** When expectations from both partners are not clear, there are cost escalations, delays and the quality of work delivered is poor. Everyone is investing precious time in getting it right rather than considering it as just another tick mark in their checklist. Defining tasks, setting benchmarks and insisting on processes, tools and talent are some ways to express expectations. A major part of expectations can be set correctly by deciding and agreeing on the right measurement metrics. While all these are important to set expectations, outsourcers are often to be blamed for a crucial lapse. They don't help the provider understand their business adequately. Equipping the provider with a clear understanding of your business drivers in addition to sharing plans and roadmaps is the very foundation of a successful outsourcing partnership.

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4. **There is a lack of communication:** It isn't what you say but what is understood that is important. This can arise from a variety of factors such as cultural differences, language capabilities, differences in industry terms and jargon, even technological limitations. Communicating frequently and clearly, stopping each time to ensure that you have been clearly understood are vital. It is equally important to have regular, scheduled meetings to discuss project progress or upgrades and formalize changes in goals and metrics. Keep your outsourcing partner on regular talking terms with you. This can easily—and quickly—get replaced with a reporting relationship. This means your provider begins to provide daily, weekly or monthly performance reviews and as long as the metrics look right, no one bothers to talk to each other. This is risky. When direct and regular communications become perfunctory, expect failure. This is because there are hidden aspects such as work norms, ethics and standards between a task that is done as per SLAs and a report being delivered to show the task was completed. These are facets of business that cannot be managed without regular communications.

Your business must have set criteria to evaluate providers and a process to conduct the evaluation at a regular frequency.

5. **Transition processes need improvement:** Ensuring that you have a right plan for transition of processes or migrating processes to offshore or outsourced locations is important to success. Migrations are complex activities that require a thorough examination of processes as well as the technologies, infrastructure and managerial skills required to sustain processes in the offshore location. Transition managers who have experience in cross-cultural environments and who value the importance of process are prized assets in migration of outsourced processes. Simple processes, say support for spam filtering and message quarantine devices in enterprise email systems, can quickly impact the entire business from day one if not managed correctly. The impact can be so widespread that it can create a company-wide resistance to outsourcing. Transition processes are important for a variety of other reasons. Poor transition can result in cost escalations, delays in outsourcing implementations and poor customer satisfaction. Poor transition can be the root cause of outsourcing failure. Ensure that your transition management is run with the same discipline, planning and resource allocation as the rest of your production.

The reasons for over-management have their roots in poor transition practices, inadequate communication, and lack of understanding of local work conditions and cultures or choosing provider that do not have adequate industry exposure.

6. **Inadequate risk analysis:** There are several risks associated with outsourcing. Your provider may not have any one or a combination of the following: qualified resources in adequate supply, appropriate infrastructure to meet your specific needs, industry expertise/specialized capabilities, dedicated technology, financial fitness, quality practices that prevent degradation of services, inability to train resources to meet churn, poor security policies and inadequate governance practices. A thorough provider risk analysis before engagement must be done. In order to do this, your business must have set criteria to evaluate providers and a process to conduct the evaluation at a regular frequency. Potential providers must be ranked in order of risk. This will ensure that once you decide on a provider, you can create the appropriate safe guards in the terms of your contract. However, outsourcing efforts fail because provider risk analysis is not rigorous enough. Today, there is an additional risk factor that must be taken into consideration: country risk analysis. There are geography specific changes that could impact your business. Be sure to factor those in addition to provider risk analysis.

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7. **Unforeseen costs or rising costs:** Many businesses assume that once an agreement for outsourcing has been signed, costs will remain static. This is only partially true. Costs may continue to rise depending on the location where you outsource. For example, hotel rates in and airfare to the location you outsource in may go up, restricting the movement of executives associated with the outsourcing relationship. It is therefore important to estimate the person-to-person contact required by your outsourcing program (it could be to oversee projects or bring immediate oversight to governance standards) before you proceed with the contract. There are other reasons that costs may go up. Keep a watchful eye on inflation and unemployment rates in the geography you outsource. These could lead to cost escalations if your contract does not prevent the provider from loading growing costs to your bills. One of the most effective ways to prevent outsourcing failure due to cost escalations is to divide your outsourcing needs between various locations. As an example, the after sales technical support function for a manufacturer of wireless routers can be set up in India, Mexico and the Philippines. Support volumes can be balanced between the three destinations, based on changing local costs.

8. **Over management/micromanagement:** Management is at the core of all outsourcing projects. There are businesses that are anxious that the outsourcing provider may not follow practices that are widespread within their own environments. This can lead to potentially damaging over-management or micromanagement. The reasons for over-management have their roots in poor transition practices, inadequate communication, and lack of understanding of local work conditions and cultures or choosing provider that do not have adequate industry exposure. Over-management can wear both partners down, and you can be sure that the relationship will quickly head for flash point.

9. **Changing buyer needs:** Today's business environment is changing rapidly. These changes cannot be foreseen and therefore cannot be captured in outsourcing agreements and SLAs. Buyers want their providers to change based on their needs. This is unlikely to happen unless the provider is flexible and nimble. The first—flexibility—can be ensured by agreeing to the right contractual terms. The second—being nimble—is more difficult to guarantee. It is therefore important to ensure you deal with your outsourcing provider as a partner and share business

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developments and their impact regularly. This gives your provider a chance to see changing demands and prepare for them. Above all, when doing a risk analysis on your potential providers, be sure to assess the willingness of the provider to adapt to change.

10. **Buyer behavior towards provider:** This is an embarrassing topic and often not discussed in outsourcing discussions. Buyers tend to deal with their providers in an unstructured manner. If the outsourcing project should not fail at tough times, it's imperative that the buyer sees the provider as a partner—an extended arm of the organization. They need to be in sync with the organization's long-term vision and strategy so that when the business demands stretch the provider, they are already geared up to meet the demand.

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It is not always possible to address all the ten issues above adequately. Most businesses therefore ensure that their exit strategy is painless. This is a good way to de-risk your business. On the other hand, if the provider perceives your exit strategy as being one-sided, you can add the 11th reason for outsourcing failure: an exit strategy that does not work for both partners!

How has your organization managed to overcome outsourcing failures?

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