

Risky Business: Organisational Effectiveness at Managing Risk of Outsourced Projects

An ESI International Study



+44(0) 20 7017 7100

www.esi-emea.com

Nearly 95 percent of organisations buy, provide or both buy and provide outsourced services and functions, in which they face inherent risks created by new and unforeseen challenges. These risks create the need for a risk management culture that is essential for organisational success. This report seeks to explain how users and service providers identify, assess, mitigate, exploit and manage outsourcing risk, and more importantly, how effectively.

The following are among the highlights of a global survey conducted among more than 600 project, programme, department, senior and executive managers involved in their organisations' outsourcing projects.

- A lack of foundational skills and processes in risk management results in fewer than half of organisations being able to effectively manage risk of outsourced projects. With nearly two-thirds of organisations spending up to half of their budgets on outsourcing, there is clearly a need to refine risk management capabilities in order to positively impact bottom line performance.
- Organisations do not always clearly define business requirements when outsourcing projects. The lack of developed requirements hinders effective communications between outsourcing partners and the ability to map outcomes of outsourced projects to organisational goals and objectives.
- Vendor management issues rank among the top risks of concern to organisations when outsourcing and are closely tied to their focus on effective contract management.
- Organisations acknowledge that training and more information are necessary to meet outsourcing challenges of risk assessment and management. Managing product or service quality is the top risk for organisations which are outsourcing, and just one of many areas in which they say they could use more support.

Gaps in Organisational Risk Management Capabilities

With 45 percent of organisations reporting that they lack a strong risk management culture, it is not surprising that more than half of organisations believe their organisation is only somewhat or not very effective at risk assessment and risk management of outsourced projects. Two-thirds of organisations lack a well-defined or structured risk management process. Identified risks of outsourcing such as quality of service and vendor management are less likely to be successfully managed with existing risk management gaps.

Mixed Results Implementing Business Requirements

Organisations indicate shortfalls effectively using requirements management and development, a critical area for managing outsourcing risk. 75 percent of organisations do not always clearly define requirements of outsourced projects, which are at the foundation of successful project management. Only one-third of organisations always clearly articulate and define financial goals to outsourcing partners.

Focus on Managing Vendor and Contract Issues to Manage Risk

The reported results in vendor management and contract management indicate that organisations are focusing on these areas of project outsourcing. With the attention on ensuring vendor performance and contract outcomes, risk management competency in these areas is a key differentiator among outsourcing partners.

Need For Improvement in Risk Management Skills

More than half of organisations see room for improvement in their outsourcing capabilities, with additional training and support needs identified in key risk management skills. With only 11 percent of organisations believing they excel over their competitors in outsourcing projects, building these skill sets has the potential to provide critical competitive advantages.

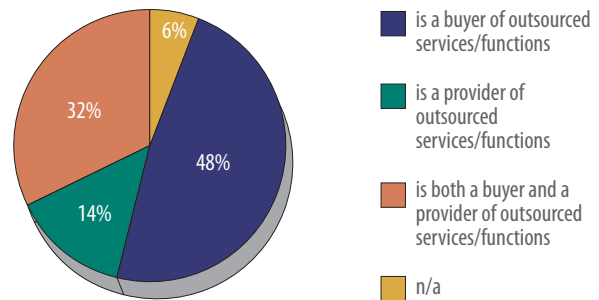


SURVEY RESPONSE SUMMARY

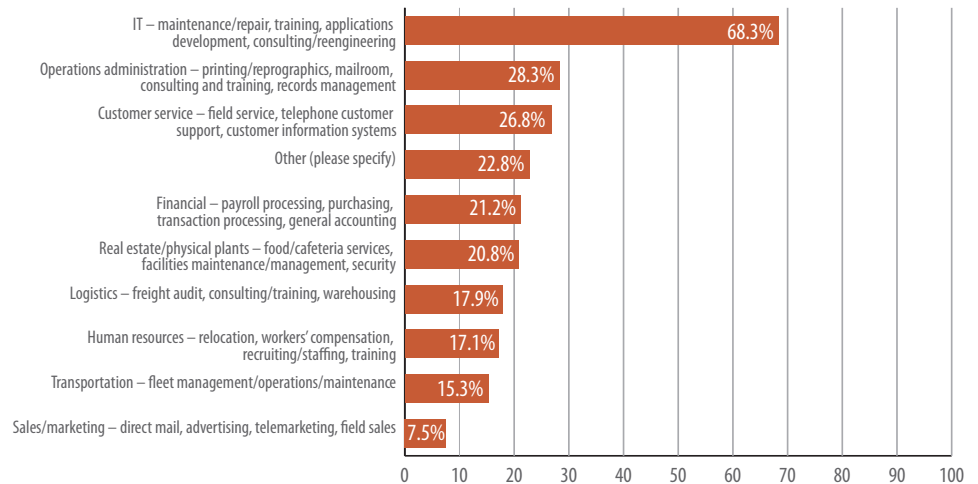
Outsourcing Overview

Organisations are overwhelmingly committed to outsourcing services in order to realise benefits not achievable in-house, with significant percentages of firms outsourcing core applications, systems and functions. IT maintenance, repair, training, applications development and consulting and reengineering are in the top most-reported category of outsourced services (68%), followed by operations administration (28%) and customer service (27%).

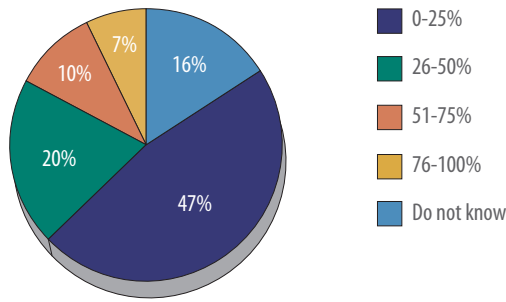
My organisation



What functions does your organisation outsource?

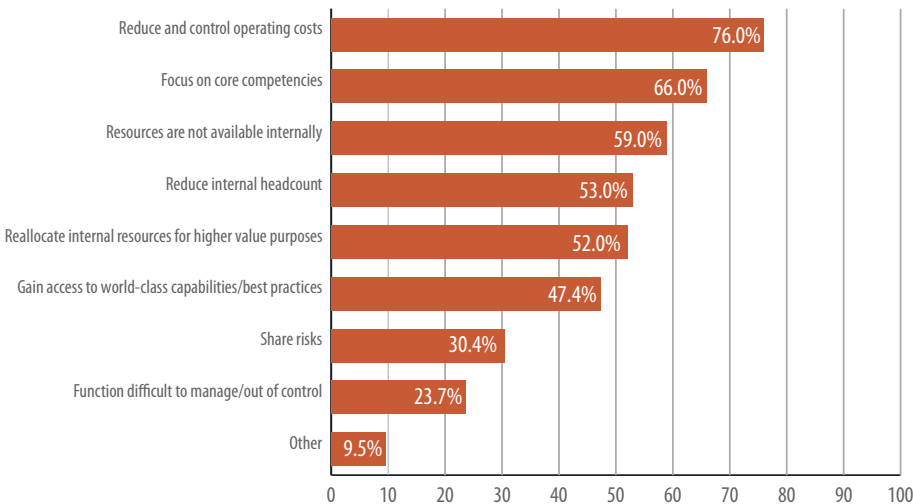


What percentage of core applications/systems/functions does your organisation outsource?



Reducing and controlling operating costs is the top driver behind outsourcing for 76 percent of organisations, with focus on core competencies (66%) and lack of available internal resources (59%) as the next top reasons organisations outsource.

The top 5 reasons your organisation outsources.



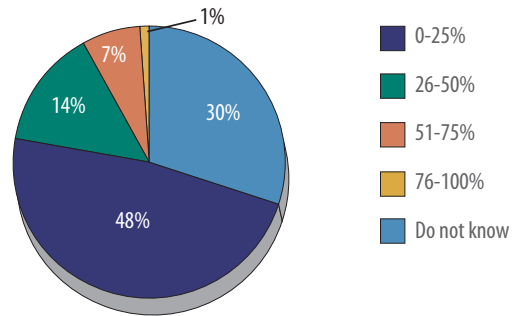
“My clients outsource to bring best practices from the private sector to the public sector — for specific roles and because the private sector has a reputation for working harder — and also to do short-term contracts that fulfil a defined need but do not incur permanent head-count issues.”

— Interview response



Along with the considerable operational dependencies organisations have on outsourcing, their financial stake is also significant, and reinforces the need to maximise the successful outcome of outsourced projects. Nearly half of organisations (48%) spend up to 25 percent of their revenue or budget on outsourcing, 14 percent spend 26 to 50 percent and eight percent spend 50 to 100 percent.

What percentage of your organisation's revenue/budget is spent on outsourcing?



Skills Competence in Risk Management

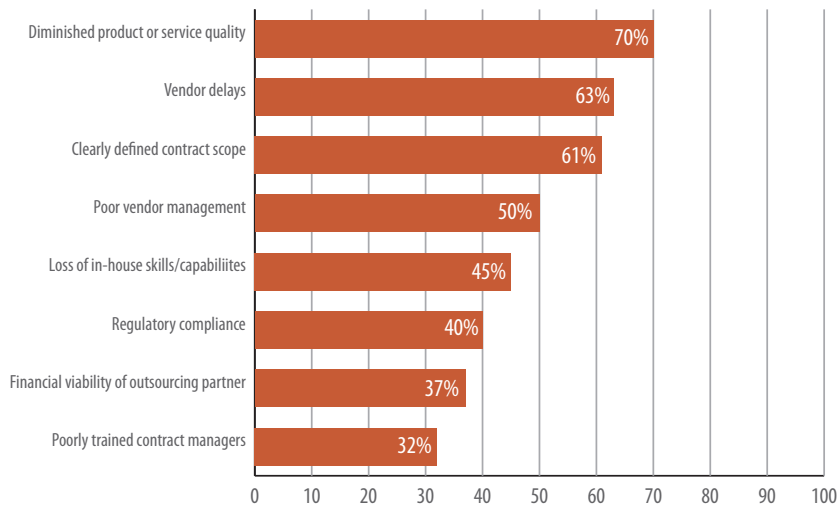
Given the stakes in project outsourcing, the skills and processes to manage uncertainties and challenges that co-exist with outsourcing are critical. The top risks that concern organisations when outsourcing projects include:

- Diminished product or service quality
- Vendor delays
- Clearly defined contract scope
- Poor vendor management

“How does the organisation assess and manage risk of clients’ outsourced projects? They do not from what I can see. I inherited a complete and utter mess.”

— Interview response

Top Risks of Concern to Organisations
When Outsourcing Projects



“There is not enough on true PM risk management, as in negative and positive risk. Risk of any type is poorly assessed, quantified, and managed.”

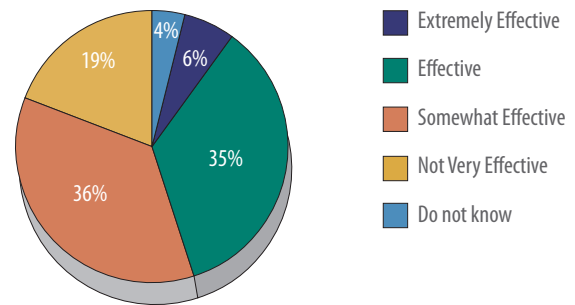
— Interview response

“Very few do risk management effectively — usually the process is lacking.”

— Interview response

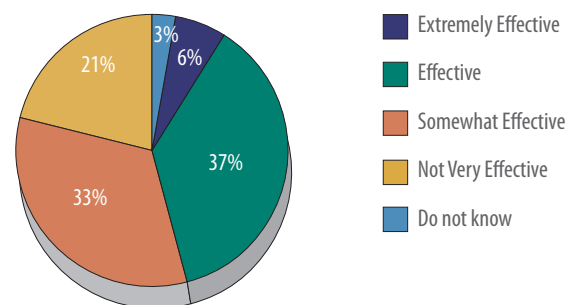
Survey results show competencies in defining and conducting risk assessment and management procedures are less than satisfactory in many organisations. When asked how effective they believe their organisation is at risk assessment of their outsourced projects, 19 percent said not very effective, while 36 percent said only somewhat effective. Just over one-third said their organisation is effective, and only six percent said they are extremely effective at risk assessment.

In your opinion, how effective is your organisation at risk assessment of outsourced projects?



The responses regarding organisational effectiveness at risk management were similar to those for risk assessment effectiveness. Twenty-one percent said their organisation is not very effective at risk management, 33 percent said they are only somewhat effective, and 37 percent said they are effective. Again, only six percent believe their organisation is extremely effective at risk management of outsourced projects.

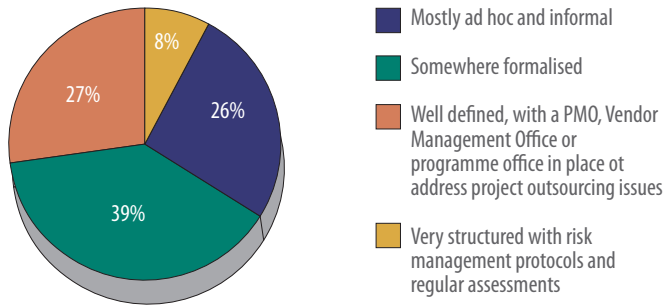
In your opinion, how effective is your organisation at risk management of outsourced projects?



Risk Management Process Refinement

The level of refinement of risk management processes in organisations impacts their effectiveness. Just eight percent of survey respondents said their risk management process is very structured with protocols and regular assessments, while more than one-quarter (27%) say it is mostly ad hoc and informal. 38 percent say their organisation's risk management is somewhat formalised, and 27 percent say it is well defined with a PMO, vendor management office or programme office or programme office.

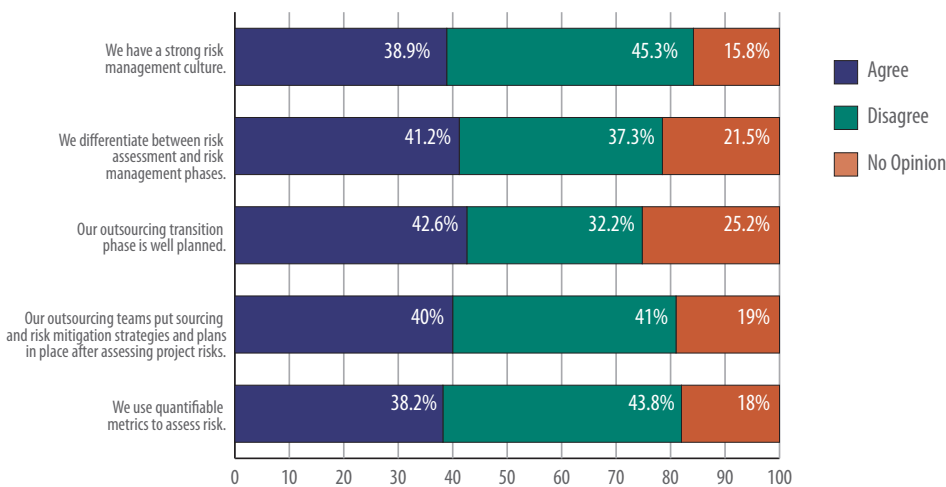
In your opinion, is your organisation's risk management of project outsourcing:



In response to additional questions about risk assessment and risk management processes, fewer than half of responses indicate organisations adhere to best practices for risk assessment and risk management, as demonstrated by the following:

- 39% agree that their organisation has a strong risk management culture.
- 41% agree that they differentiate between risk assessment and risk management phases.
- 43% agree that their outsourcing transition phase is well planned.
- 40% agree that their outsourcing teams put sourcing and risk mitigation strategies and plans in place after assessing project risks.
- 38% agree that they use quantifiable metrics to assess risk.

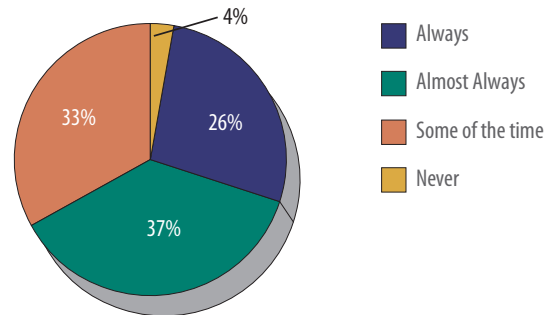
When outsourcing a project



Requirements Best Practices Gaps

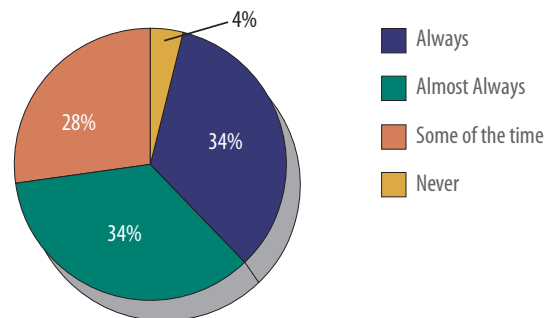
Clear requirements are the foundation of any project and essential to managing the risk of outsourced projects. Survey responses provided interesting insights into the regularity of requirements gathering of outsourced projects. Only one-quarter of respondents (26%) always clearly define requirements, 37 percent almost always do and 37 percent do some of the time or never.

When outsourcing a project in our organisation we clearly define requirements:



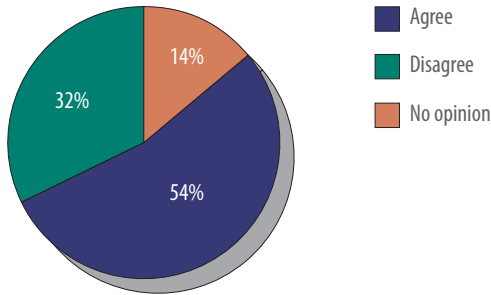
Clearly articulated and defined financial goals and deliverables are always communicated to all involved outsourcing parties by just over one-third of organisations (34%). 34 percent almost always do, 28 percent do some of the time and 4 percent said they never do.

Financial goals and deliverables are clearly articulated and defined to all involved parties.



More than half (54%) of respondents agreed that their organisation continually evaluates outsourced projects in relation to their original goals and objectives, while nearly one-third (32%) disagreed.

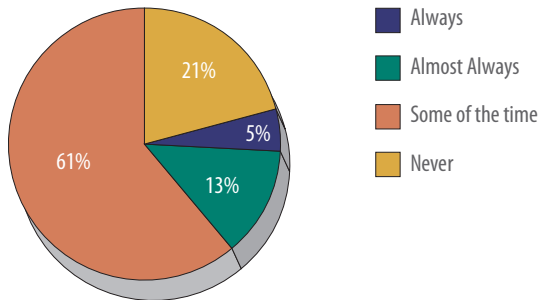
Outsourced projects are continually evaluated in relation to their original goals and objectives.



Outsourcing Broken Projects

Outsourcing functions that do not work in-house minimises the ability to effectively communicate requirements due to the inability to identify how the process works correctly. Yet five percent of organisations always outsource functions that are not working well or are broken, 13 percent of organisations almost always outsource these functions, 61 percent do some of the time and only 21 percent never outsource broken functions.

When outsourcing a project in our organisation we outsource functions that are not working well or are broken.



“Overall, there is a lack of strategic planning and management of the suppliers who are largely responsible for implementation.”

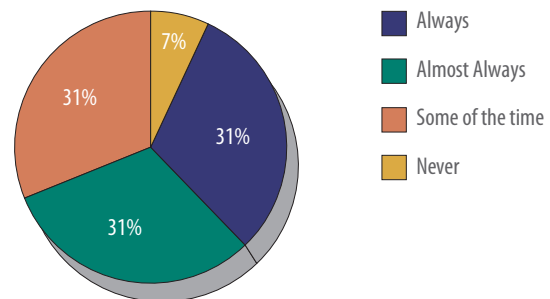
— Interview response

Vendor Management and Contract Management Focus

Survey responses indicate vendor management and contract management as the areas organisations are most effective in managing risk of outsourced projects. For example, a majority of survey respondents (62%) said their contract management process is well designed and implemented. This is not surprising given that vendor and contract management issues are among the top risks which concern organisations. This level of focus indicates service areas in which outsourcing partners will be more closely scrutinised and should be prepared with competitive service level agreements.

Additional survey responses of best practices indicate varying levels of effectiveness. When asked if their organisation uses a formalised process to ensure service level agreements are clear and attainable, 31 percent of respondents said they always do, 31 percent said they almost always do, 30 percent do some of the time and seven percent never do.

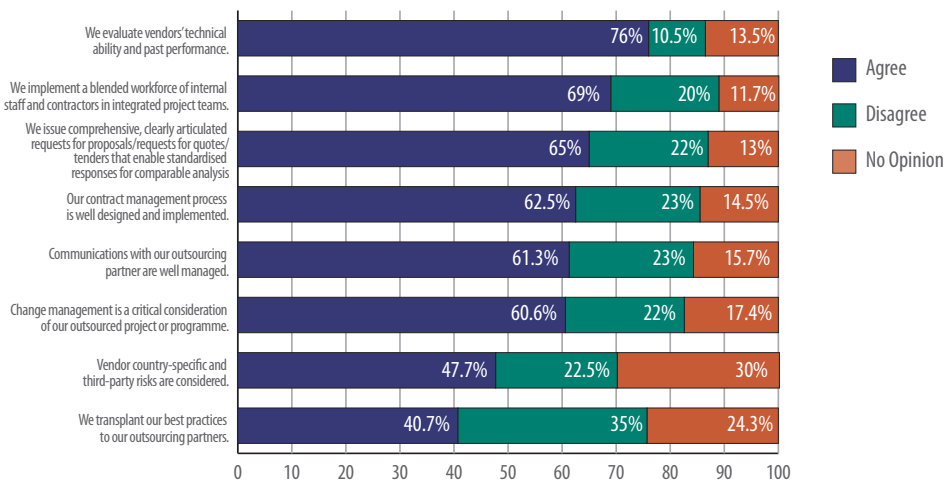
We have a formalised process to ensure Service Level Agreements are clear and attainable.



In other areas of vendor management and contract management, when outsourcing a project:

- 76% of organisations evaluate vendors’ technical ability and past performance, while 11% do not.
- 69% of respondents said they implement a blended workforce of internal staff and contractors in integrated project teams, while 20% do not.
- 65% of respondents said they issue comprehensive, clearly articulated requests for proposals/requests for quotes/tenders that enable standardised responses for comparable analysis, while 22% do not.
- 61% of respondents agreed that communications with their outsourcing partner are well managed, while 23% disagreed.
- 61% of respondents agreed that change management is a critical consideration of their outsourced project or programme, while 22% disagreed.
- 48% of respondents said they consider vendor country-specific and third-party risks, while 23% do not.
- 41% of respondents said they transplant best practices to their outsourcing partners, while 35% do not.

In our organisation



“Risk management is very critical, but so is change management. We have to always look at the ‘what if?’ scenario.”

— Interview response



“As an organisation, we believe as long as we can provide value to the business, our clients will continue to outsource, and outsource more.”

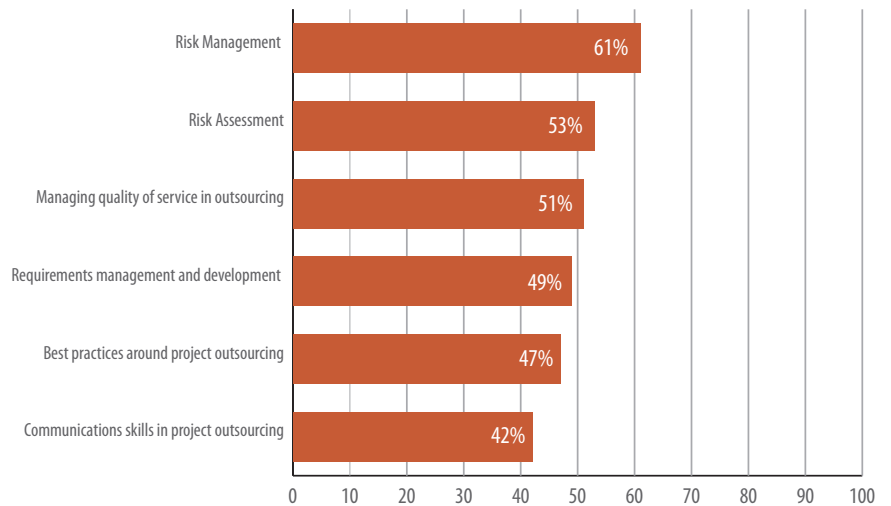
— Interview response

Meeting Risk Management Demands for Future Outsourcing

Recognising the mixed success they have had at managing risk of outsourced projects, survey respondents acknowledge the top outsourcing challenges in which their organisations could use more information and training:

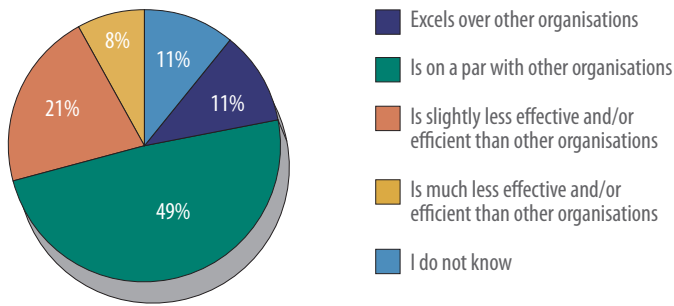
- Risk management (61%)
- Risk assessment (53%)
- Managing quality of service in outsourcing (51%)
- Requirements management and development (49%)
- Best practices around project outsourcing (47%)
- Communications skills in project outsourcing (42%)

The top outsourcing challenges in which your organisation could use more information/training:

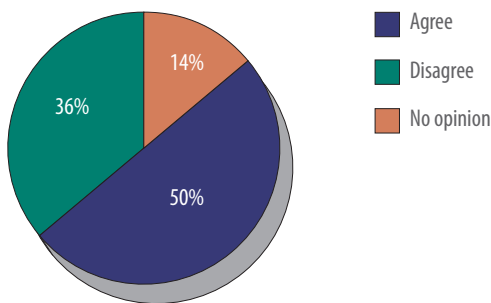


Organisations enhancing their outsourcing skills and processes stand to gain competitive advantages since more than three-quarters of survey respondents (77%) believe that they currently perform at or below the level of other organisations. Only half of respondents agree that outsourcing team members have appropriate project management experience and skills.

In comparison to other organisations of your type and size, your ability to outsource projects efficiently and effectively



Our outsourcing team members have appropriate project management experience and skills.



“If someone sees something wrong, they should not assume that someone else will see it and fix it. Take personal responsibility for reporting it, and if things do not get done, push it until things do change for the better. People accept road blocks too easily, and forget their own responsibility.”

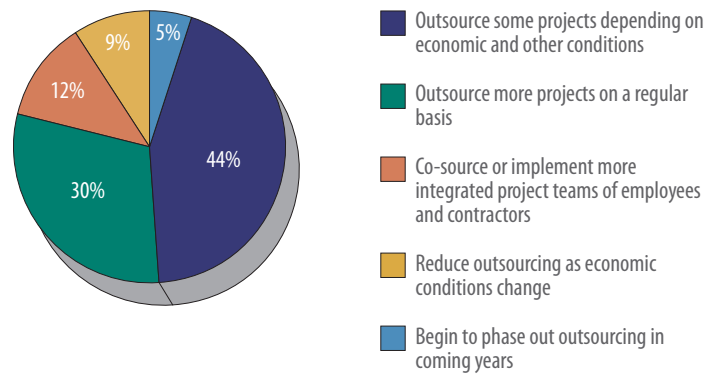
— Interview response



Training and support are also well advised since a majority of survey respondents said that their organisations will continue to outsource and even co-source more in the future.

- 44% will outsource some projects depending on economic and other conditions
- 30% will outsource more projects on a regular basis
- 12% will co-source or implement more integrated project teams of employees and contractors
- 9% will reduce outsourcing as economic conditions change
- 5% will begin to phase out outsourcing in coming years

Do you believe that your organisation will:



Measuring Up Global Risk Management

The ubiquity of project outsourcing creates opportunities for, and demands on, organisations to better develop and refine their outsourcing competencies. The results of ESI's global survey indicate areas for risk management improvement across all stages of the project management life cycle. Given survey responses of current practices and perceived levels of success, the potential for greater performance, productivity and competitive advantages through better risk management is highly apparent. With appropriate training and support in risk management skills and processes and the adoption of a risk management culture, organisations can enhance their outsourcing capabilities to achieve greater organisational success.

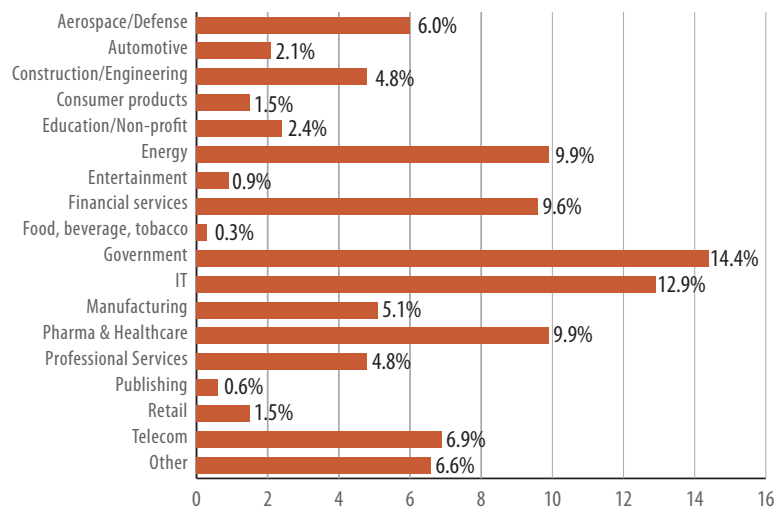


Survey Methodology

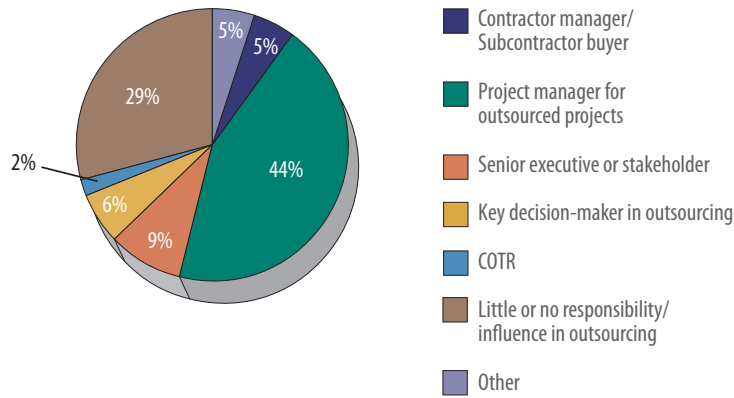
ESI International sent an e-mail survey of 20 close-ended questions to contractor managers, subcontractor buyers, project managers, senior executives and key decisionmakers in outsourcing in North and South America, UK/Europe, Asia/Pacific, the Middle East and India. The survey was conducted from April 15 to April 29, 2010. The number of respondents who took the survey was 615. Not all respondents answered every survey question. The survey was anonymous unless respondents wanted to receive the results, in which case they had to complete their contact details. Additionally, detailed qualitative interviews of eight questions were conducted by phone and e-mail.

Survey Demographics

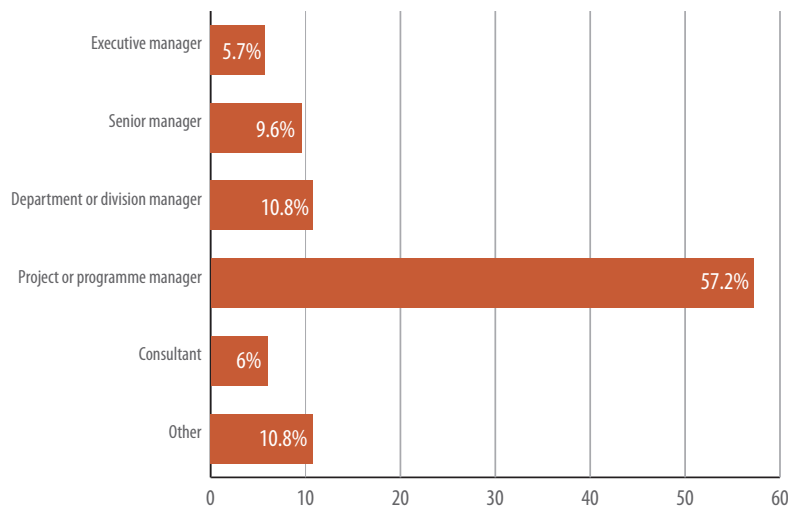
What industry does your organisation belong to?



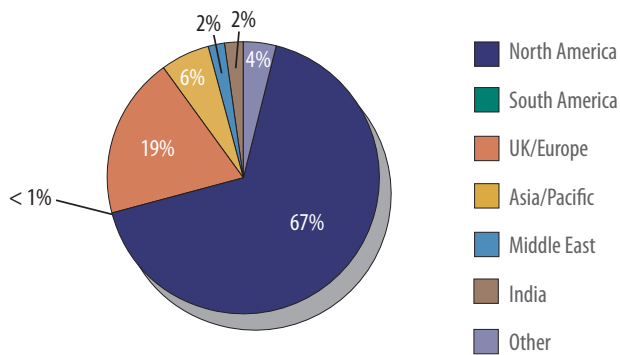
What is your role in outsourcing?



What is your job role?



In which region are you based?



The ESI Solution

ESI International, the leading provider of project management, programme management, business analysis and contract learning programmes has helped some of the world's most successful organisations drive results. Our top-quality performance improvement programmes and consulting services have enabled domestic and international corporations and public agencies to enhance their employees' skills and talents and improve their internal systems and processes. With the support of our educational partner, The George Washington University in Washington, DC, ESI has helped more than one million professionals and 1,000 clients worldwide achieve individual and organisational objectives.

+44(0) 20 7017 7100



For more information about how ESI can help your organisation, call us at +44(0) 20 7017 7100 or visit www.esi-emea.com.