

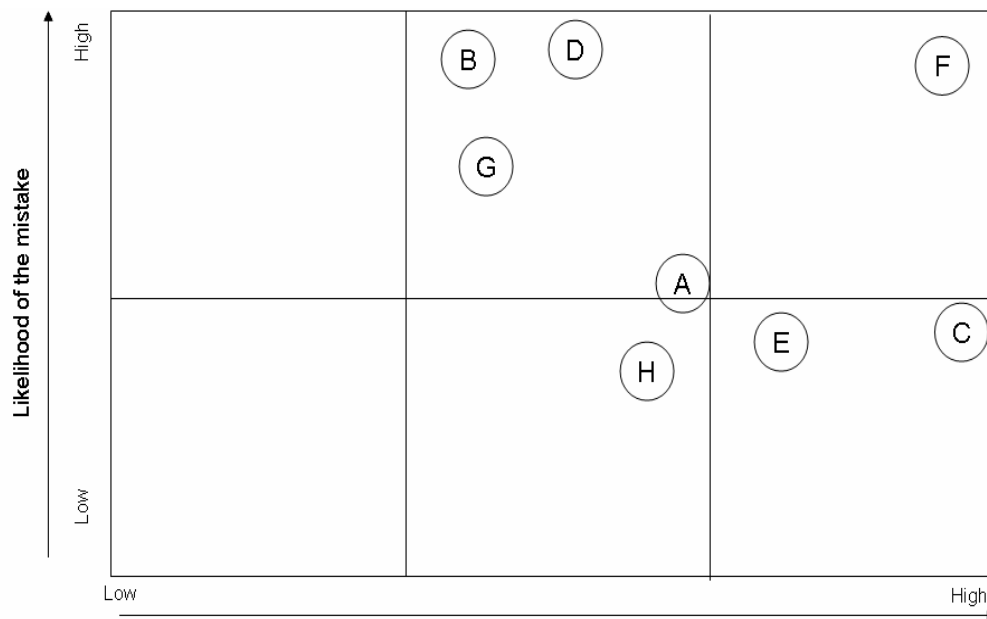
Eight Worst Mistakes in Outsourcing and How to Avoid Them

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Much has been written about the numerous benefits and ills of outsourcing. Nonetheless, it is now a business imperative for most companies, underpinning the need to ensure a successful outsourcing relationship.

Being a strategic decision with long term impact, the success of outsourcing depends both on the service provider and the outsourcer’s commitment. An analysis of outsourcing relationships that have not been successful reveals a certain pattern. Based on our extensive experience in outsourcing engagements we have identified the eight most common but serious mistakes enterprises are likely to commit while outsourcing their processes to a third party service provider. This paper analyzes each mistake in detail and outlines measures to avoid these pitfalls.

The following illustration highlights these eight common mistakes.



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| <p>A Poor Governance</p> <p>B Focus on the cost savings- Short sightedness</p> <p>C Improper evaluation of vendors</p> <p>D Lack of preparation/Viewing outsourcing as an instant solution</p> | <p style="text-align: center;">Severity of the mistake</p> <p>E Outsourcing high touch activities</p> <p>F Failure to develop an effective communication program</p> <p>G Poor cultural fit – compatibility of parties</p> <p>H Improper defining of Metrics and SLAs</p> |
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1. Poor Governance

This is one of the most commonly encountered problems and a key cause of failure of an outsourcing relationship. Organizations often take a tactical approach to outsourcing and do not pay attention to executive sponsorship, which is an important ingredient for success. Lack of a structured governance mechanism has led to the “untimely demise” of several outsourcing relationships.

A good governance model ensures a strategy which clearly defines the objective of outsourcing, prescribes a working model that is flexible and collaborative, sets up SLAs and decides on a mechanism for arbitrating issues.

Most outsourcers, however, woefully under invest in the ongoing governance and management of the service provider relationship and this invariably spells trouble for the engagement.

2. Shortsighted Focus on Cost Savings

Most enterprises that have outsourced their IT requirements cite cost savings as the key reason for doing so. *According to a survey of more than 800 executives in the United States and Europe, cost saving is still the primary driver for outsourcing.* This often results in raising unrealistic expectations with reference to continual cost savings. Owing to this myopic view, enterprises fail to consider other benefits such as process efficiency, improved focus on core business areas, better ability to plan, higher levels of operational reliability, and more rapid implementation of new strategies and initiatives.

A broader and long term approach is essential to set pragmatic goals, spread over time for evaluating the success of a relationship. Some of the other benefits enterprises should seek from outsourcing engagements include access to flexible, scalable and easy to maintain systems — leeway to focus on core strategic functions, access to high caliber labour and more importantly risk mitigation. When enterprises broaden their vision and visualize outsourcing as a strategic function, they will be able to adopt a more balanced approach as opposed to viewing it as a pure cost reduction mechanism.

3. Lack of Preparation - Seeing Outsourcing as an Instant Solution

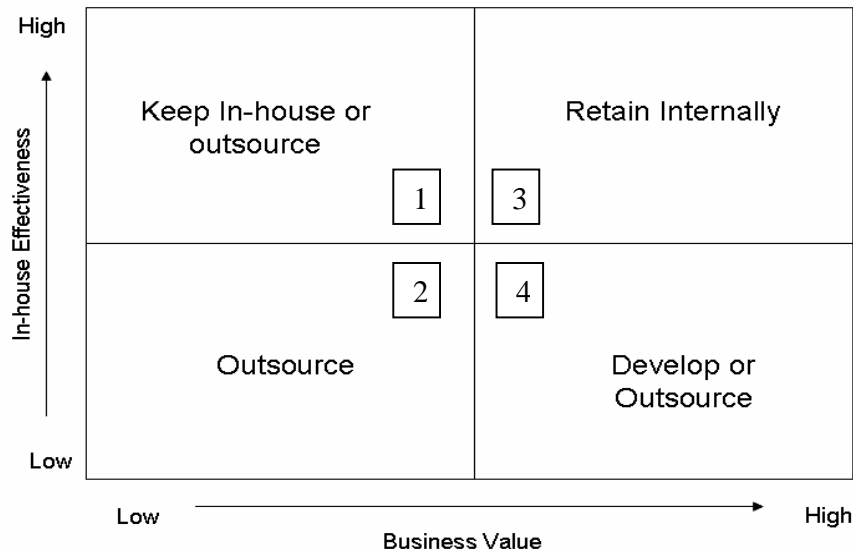
Using outsourcing as a quick fix to alleviate certain immediate problems is yet another commonly encountered issue that leads to poor results. While outsourcing does result in some operational sweet spots, it should not be the primary reason to employ this strategy. This mindset leaves an enterprise under prepared for outsourcing.

Many a times, companies start the request for proposal (RFP) and contract negotiation processes before they have thoroughly evaluated the outsourcing decision internally. Outsourcing being a complex decision, such an unplanned approach will jeopardize the future of the relationship.

To ensure a successful and lasting outsourcing engagement, the organization must prepare itself for the change it will have to undergo during this transformation. Issues such as job loss and resistance to change will crop up during the transition and needs to be guarded against.

4. Outsourcing High Touch Activities

Not all work is ideal for outsourcing. Understanding what processes to outsource is an important part of the planning process. Against this backdrop, it is useful to consider a framework such as the one shown below and categorize work into four broad buckets -



Outsourcers sometimes do not invest enough time to do such a mapping and may end up outsourcing the wrong processes leading to disastrous consequences. Then again, organizations that outsource projects with low business value, or too many hand offs, may not enjoy the right results. If the project requires considerable interaction, the management overheads are likely to increase exponentially leading to questions over the possible benefits.

5. Failure to Develop an Effective Communication Program

In a recent survey by a leading association, 28 percent of the 1,000 respondents had pointed out poor communication as the top reason for the failure of an outsourcing project.

Communication is a key factor in delivering results in an outsourcing engagement. Sharing of information is essential for –

- Clarity of expectations and objectives
- Alignment of interests
- Compatibility between the two parties

A number of factors such as the distance, time, language, and cultural differences create barriers for communication. Also, in cases where cost cutting is the only reason for outsourcing, it has been seen that communication takes a backseat. For a successful outsourcing relationship, the outsourcer and the



service provider need to work in a collaborative manner. Key elements for overcoming barriers for communication include:

- Establishing clear communication channels
- Standardized format for content, frequency, levels and modes
- Interactive and proactive communication
- Escalation mechanism
- In global outsourcing relationships, showing diversity

6. Improper Evaluation of Outsourcing Service Providers

Often companies invest less time and money on selecting service providers and put the complete project in jeopardy. Proper evaluation and selection of providers is crucial. Forrester has identified six common mistakes that companies should avoid while evaluating providers –

- Failure to understand the market
- Time expended on complicated RFPs
- Evaluating too many providers
- Letting service providers take control of the process
- Letting politics cloud decision
- Leaving commercial details to the end.

The pitfalls of choosing the wrong service provider are many. At the minimum it would give sub optimal returns and in the worst case, it may lead to the outsourcer abandoning the engagement. Therefore, it is essential to thoroughly evaluate service providers on their contextual understanding. Before selecting a provider, or even drafting an RFP, it would be a good idea to know the big and up-and-coming providers in that space. This due diligence can come in handy while short listing providers.

It is better for a company to stay in control and remain focused on the key criteria, essential for the success of the engagement. Ranking the providers based on certain pre-defined criteria is the best selection method; this also minimizes the subjective influence on the selection.

7. Poor Cultural Fit – Compatibility of Parties

At the end of the day, an outsourcing relationship works best when the chemistry between outsourcer and service provider is right. Given that people are at the center of an IT outsourcing arrangement compatibility is essential.

“Off late, CIOs who consider cultural fit to be as important as cost savings have experienced the most successful outsourcing relationships,” says an AMR Research article. The finding is not surprising given that outsourcing is becoming strategic and long term in nature. Consequently, it has become all the more important to find an outsourcer who has similar work ethics, values and ways of doing things. Businesses are also beginning to see the value in bringing in external consultants to help bridge cultural gaps and iron out differences during negotiations. As a rule, compatibility issues needs to be addressed during the selection process. In addition, effective communication is essential to ensure good cultural fit.



8. Improper Definition of Metrics and Key Performance Indicators

Often businesses believe that a set of predefined metrics will help them monitor the performance of the service provider and retain control over the relationship. However, the wrong set of metrics or an overdose of KPIs can do more harm than good to an outsourcing relationship. In the first case, the outsourcer may not get the true picture of whether the relationship is moving in the right direction, and this is dangerous. In the second case, fatigue may defeat the value of the tracking.

Thus, the recommended approach is to choose a few apt metrics that gives the outsourcer a sense of where the engagement is at any point in time. On line dashboards are becoming increasingly common as a means of providing visibility on metrics and KPIs to the buyer.

Conclusion

Progressive companies have demonstrated a multitude of benefits by adopting an outsourcing strategy. However, for outsourcing to work, there are critical success factors. Lack of appreciation of these factors could result in either failure of the engagement or disappointment on the part of the outsourcer.