

# In or out?\*

Outsourcing



## **In or Out?**

Outsourcing may be a powerful competitive weapon for organisations but it is certainly a double-edged sword. When used strategically, it has the potential to make a material impact on the performance of an organisation; when it goes wrong it can drag the organisation backwards and leave it scarred.

And that is because the implementation of these programmes is comparable to a major corporate transaction. Merger and acquisition activity will always garner a lot of attention and accountability at board level, yet outsourcing and offshoring arrangements often will not get the same level of attention from senior members of the organisation.

Many companies have already outsourced their IT and back-office functions or established shared services centres for major business processes. They are now outsourcing core activities like research, product development and tax and legal services, as globalisation and connectivity enable new ways of doing business. The rationale for outsourcing is thus changing dramatically; a growing number of organisations see it as a means of obtaining strategic advantages, not just as a cost-cutting measure.

So could this be the way forward for you and what can this mean for your business?

## **Management commitment**

Painful experience has shown that, to deliver maximum benefit, the outsourcing process takes time and serious management commitment. In fact, a successful programme needs as much management time and attention as a major M&A transaction – or more.

The difference is that a major deal involves one transaction; an outsourcing arrangement is much more than a transaction, it is an ongoing relationship with an external, independent entity. Processes might be stripped out of the organisation, but the regulatory and reputational risks remain within it – and that means committing to active management for the life of the agreement.

## **Governance process**

Poor structuring or contract management between the provider and the client can often lead to relationship breakdown and result in clients wanting to pull out of their contract at great expense. So getting the right management team and governance processes in place for the life of the contract is critical for successful outsourcing.

Outsourcing cannot be treated as just another procurement programme, executed and managed by the purchasing department – the board of directors must drive these projects, or they will fail.

## **Getting it right**

The main benefit of outsourcing is that it allows the directors of a business to focus on those core activities that they are good at, without having to worry about certain support functions such as accounting, IT, payroll or HR, which are often overlooked. However the failure of such an important support function can be fatal to a business, resulting in financial loss or disgruntled customers or employees.

Like most things in life, having a good team that you can trust around you will give you the peace of mind that you need. Your outsourcing partner will be no exception and choosing one that understands your business needs and is willing to go the extra mile will help your business to succeed.

The outsourcing lifecycle consists of six phases, each with its own set of challenges. You have to focus on the big picture, and look at the full term of the deal as well as the issues arising in each phase.

- Identify which activities to outsource
- Define your requirements and assess potential suppliers
- Negotiate the right terms, draft watertight contracts covering the sharing of intellectual property, performance criteria and penalties for non-performance
- Make major changes and communicate with employees about alterations in their working environment
- Manage political, regulatory and operational risks
- Review and manage existing contracts and resolve disputes

When assessing your potential supplier do not hesitate to ask them for references from existing clients. A good service provider will be only too willing to share their experiences and those of their satisfied customers with you. And whilst cost saving is often an added benefit to outsourcing, consider if the fee being quoted feels right. If the fee is too high you will feel aggrieved that you are not getting value for money, whilst if the fee is too low this may be an indication that the service which will be provided will fall short of your expectations.

### **So is this the way forward?**

Whilst outsourcing is something that you should consider, it might not always be the solution at hand and businesses should reflect on some of the key points highlighted above and balance the advantages against the potential pitfalls. Sometimes it is difficult to change when things seem to be working satisfactorily, but in this fast moving world change can often be the difference between success and failure. To change is always difficult but not to change can be fatal.

### **So, are you in or out?**

Charles Bottaro joined PricewaterhouseCoopers in 1998 and heads the firms outsourcing and business advisory services. PricewaterhouseCoopers can provide insight founded on experience to help organisations make smart choices in outsourcing, offshoring and shared services.

**International Association of Outsourcing Professionals names PricewaterhouseCoopers top global outsourcing advisor for 2009.**