5 Outsourcing Risks

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Offshore outsourcing can help achieve a variety of business goals, but it is critical that senior management understand the many trade-offs. In creating a strategy to manage the offshore relationship, you must address these five major risks inherent in outsourced projects.

Businesses are under increasing pressure to do more with less, and offshore outsourcing is on their agenda for many reasons, including lower costs and capital expenses; accelerated time to market; compensation for lack of internal staff; and improved quality. In search of these goals, outsourcing may be a suitable solution. However, as with any new business endeavor, there are trade-offs. Here are five major risks that organizations should consider in planning and executing an outsourcing strategy.

1. Cost expectations. For several years now, outsourcing proponents have claimed that IT work costing $40-$80 an hour in the United States can be done for $15-$25 an hour in India or Russia. If those figures sound too good to be true, it's because often they're not. An offshore team often will not become productive (by onshore standards) for at least three months, or even longer for complex projects. Companies should **expect to pay an additional 5 to 15 percent** on managing an offshore outsourcing program, at least during the first year. The transition phase will add costs, too — planned expenses should cover due diligence, transfer of knowledge and extensive program management.

2. Data and intellectual property security. It is critical to establish an environment of trust with the selected vendor while executing the necessary legal protections. Make sure protections are in place in the event of turnover at the offshore vendor. Consider outsourcing development work that will have little impact on your business if it is "appropriated." The risk of data and IP protection increases when working in international business. Determine up front who owns the technology and/or the intellectual property that results from the research and development. Establish what the offshore third party is prevented from doing with respect to developed or accessed intellectual property. Groundbreaking research may be better held internally, while engineering on established products can be outsourced offshore.

3. Project risks and scope changes. It is not a secret that project scope changes significantly during the life cycle. Going into outsourcing engagement, executives should consider the risks involved with project scope changes and their management. With part of your team located in other time zones, it is critical to have collaboration and software configuration management tools that enforce established process standards, IP security, and maximum visibility and control. Consider beforehand how to manage the outsourcing program, properly select tools to facilitate the management process, track status and changes, communicate requirements, and maintain IP security.

4. Culture difference. Differences in culture can result in miscommunications, or assumptions made by either side that are incompatible with your business goals. These issues can reduce overall outsourcing program performance and productivity and can result in extra costs. Several strategies can be used to mitigate risks, including using **a project manager who has cross-cultural experience**, or providing cultural sensitivity training to team members on both sides. It is critical to implement an ongoing program that stresses global and cross-cultural awareness, creating a comfortable multicultural workplace.

5. Knowledge-transfer management. The time and effort to transfer knowledge and subject matter information to the service provider is a cost rarely accounted for by executives. Both parties must establish a communication framework to transfer knowledge on objectives, issues, updates and results of an outsourcing engagement. Knowledge transfer is an extremely important aspect of any outsourcing program management, particularly if documentation is lacking.

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