

## **Outsourcing Considerations & Potential Pitfalls**

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### **Introduction**

In recent years announcements by organisations of the outsourcing of services, particularly in public sector, tends to highlight the controversy surrounding this issue. Whilst most of this is well rehearsed territory with arguments by union leaders and other opponents reminiscent of the days of compulsory competitive tendering, there are also some surprising voices from within other organisations sounding a note of caution. Most of these reflect some bitter experience where outsourcing has proven a short term gain and longer term disaster. It calls to mind the old adage; "Simply outsource a problem and you end up with a problem outsourced beyond your control". This article examines some of the hard lessons which have become apparent over the last few years.

Outsourcing can undoubtedly be an effective strategy. A common objective is to outsource a function that is not considered a core competence for the business, thereby gaining expertise and hopefully a pool of knowledge and experience. Another objective is to reduce costs. Such arrangements come in all shapes and sizes, but a small business considering this needs to take as much care as a large business undertaking a multi million pound deal. Undertaken without sufficient consideration and care it's very easy for an outsourcing deal to go wrong, sometimes resulting in a worse service at greater cost. So what can be done to maximise the chances of success?

### **Clarity and adaptability of purpose**

It is absolutely vital to really work through the rationale for outsourcing and to be clear on the objectives for doing so. Once the arrangements are in place, only by measuring what is being achieved against the original objectives will it be possible to understand if the arrangement is working as it should.

One common route to trouble is where the original objectives become changed with the outsourced contractor or joint venture taking on "a life of its own" and re-prioritising to serve its own institutional ends rather than those of the outsourcer. The converse also occurs where the original outsourced specification become fossilised and the client finds that new political or policy directions cannot be reflected in operational changes because the contractor simply demands onerous charges for any variation of service. Purpose therefore needs to be both clear and adaptable, building in the drive from the client side to effect change and transparency and accountability of purpose.

### **Due diligence**

"Buyer beware!" There may well be a lot of scope for an expert supplier to improve efficiency and run the function cheaper, but the supplier also needs to make a profit from the deal. There have been many outsourcing arrangements that are deemed to have failed because the hoped for savings did not materialise. Indeed, in some extreme cases, the total cost of the outsourcing exercise taking account of the impact of reputational damage, disaster recovery, legal fees and termination penalties has been a net loss. In others the contractor profit has significantly outweighed the service savings to the client and as this has become apparent the relationship has turned from mutual interest to antipathy and dysfunction.

More commonly still the manner of service delivery in order to achieve cost reductions has sometimes created significant friction with the client side, particularly where the impact is not confined to a back office but is seen directly at the customer interface. Call centres and customer facing functions that clash with customer expectations produce huge volumes of complaints very easily.

A thorough due diligence exercise is essential to have clarity on the size of the expected saving, the reasonable level of contractor profit in return for performance and the approaches to be used to achieve all of this in terms of customer impact.

### **Picking the Right Partner**

Its really important to be comfortable with the contractor who is appointed. This means that their culture and style of business must be compatible and understood. Always ask to meet the team who will form part of the outsourcing arrangement and have a really good look at them, they are effectively going to become part of your business if appointed.

Equally it is important to recognise that despite the critical nature of strong, top level personal relationships, nevertheless the circumstances of the contractor and the people involved may change. Many a company has won a contract only to reveal a year or two later that they have merged with another or been bought out, or indeed changed their own approach and diversified through acquisitions of their own. Many a client has found that the ambitious and positive contractor manager they worked with in setting up the outsourcing has moved on, flush with the success of winning the business.

### **Clear Contract**

Without doubt the best outsourcing arrangements tick along without either party having the need to consult the contract on a regular basis, indeed having to do so is often indicative of problems.

However a clear and well worked through contract is imperative. It facilitates thorough consideration of all elements of the deal for both parties, and also goes some way to false assumptions leading to later rifts. The contract should set out very clearly what will be delivered and the underlying performance expectations.

Always use a strong legal team with a good background in developing outsourcing contracts, they can be quite complicated and it's easy to leave important components out. Some suppliers will want to use their own base contract, although this can be indicative of a less than sensitive approach to listening to the needs of the client. If this is the case a thorough review of not only the paper contract but also how it operates in practice with other clients is a shrewd investment.

### **Contract Duration & Review**

Markets change and organisations change. What is a good outsourcing deal now might become a poor arrangement in years to come. Equally the supplier needs some time to fully familiarise and make the best of the arrangement. As said earlier ensuring that adaptability is itself a key objective of the outsourcing arrangement is a key factor. However it is also essential to build in regular reviews of the overall outsourcing arrangement to cater for changing circumstances. This can protect both parties and help the outsourcing continue to deliver in changing circumstances. Such reviews need to have a fair and impartial process and be distinct from any formal contract dispute resolution procedure. If they work effectively you can avoid the damage and expense of the latter.

Build in an expiry date for the contract that allows extension if its felt to be appropriate, but in public sector beware of the strengthening European Union position on anti competitive contracting which will effectively want to see strong justification, often related to capital outlay or investment by the contractor, for arrangements exceeding five years.

### **Governance & Communication**

All outsourcing arrangements require good governance, external suppliers require the same management discipline as internal teams and departments. Agree regular meetings with the supplier and use these to discuss issues and also discuss performance against operational and service level agreements. If regular reports are required agree the required format, content and regularity as part of the contractual arrangement. Also ensure that risks are understood and

being mitigated and that any other dependencies (eg. third parties the supplier uses) are understood.

One issue that will need careful consideration is the role of elected members on any joint venture boards. The capacity for conflicted interest is enormous and some individuals have found themselves in very difficult positions when a particular arrangement has begun to turn sour. What is commonly successful however is the judicious use of scrutiny committees or panels to maintain political oversight of the outsourcing arrangement.

There is no substitute for regular communication, and a good relationship between management in both parties invariably makes for a happier and more constructive arrangement.

### **Summary**

There are many factors to consider when considering outsourcing. Its always a good idea to bring in some experienced outside assistance if you lack experience internally, it can save a lot of time, hassle, and money in the longer term.

Above all don't rush in without a clear understanding of how to manage and measure the arrangement. Articulate all expectations, assume nothing even if it seems obvious, and remember that the devil is often in the detail.

## David Wedge Profile

David is an experienced Manager specialising in strategy, corporate troubleshooting, cost reduction, supplier management, optimising outsourcing arrangements, and the identification and implementation of change and process improvement.



He has an extensive ICT background coupled with over 20 years of senior management experience. Strong track record of successful delivery, both in the UK and international, having worked in many sectors including Investment banks in the City of London and Wall Street in New York, and also running teams in Asia and mainland Europe.

David has successfully undertaken a number of local government assignments. Most recently he completed an 18 month assignment for a large city council in the North West. This involved creating and implementing an ICT strategy, putting frameworks in place for managing projects and suppliers, and reviewing and controlling failing outsourcing arrangements. As a result the council has the opportunity to save in excess of £10m a year.

Working with a team of highly skilled associates David is able to supply a very broad mix of skills and experience.