

# Cut the risks of outsourced work

Outsourcing has long been a standard practice in the business world and many companies believe that there are strong economic reasons in its favour: lower total costs, improved service quality, reduced capital drain and improved operational flexibility, among them.

But according to Simon Davies, principal of Partners in Performance International (SA), companies around the globe are re-evaluating the effectiveness of certain practices that have become an accepted way of efficiently doing business. Among the business processes that have recently come under debate is outsourcing.

Davies suggests that organisations should consider their options before outsourcing. "Think about why you want to do it, and whether the circumstances driving your current thinking could change in the future."

He points out that outsourcing can be risky because you are transferring ownership of one of your business processes to an external supplier. "When you outsource you don't instruct the supplier how to perform the task, but rather communicate what results you want - leaving the process of accomplishing those results to the supplier," he explains.

"Sometimes this leads to undesirable outcomes. For example, if a mine operator outsources transport functions to a contractor whose safety practices are less than sound and injuries occur on site as a result, it's the mine operator that would be accountable."

Outsourcing becomes less risky when a supplier has similar busi-



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ness values to the contracting organisation. "It is worth asking your potential outsource suppliers what their business values are, and you should always ask for references," he advises.

Davies says organisations should also give careful forethought to the terms of the contracts they form with outsource suppliers to avoid problems later, and should get external, expert advice in this regard, if possible.

"Vagueness opens up 'wriggle room' for your supplier to underperform without penalty, or to charge extra for things you assumed were part of the deal," he warns. "As most companies do not have penalty clauses when using their own employees and business processes, it's easy to overlook these when drawing up a contract with an outsource supplier. But when you're paying a supplier for a specific result, you're allowed to build in penalty clauses so that if the supplier doesn't deliver, it's he, not you, who will lose out."

He also advises organisations not to assume that they will no longer need to manage business processes when outsourcing. "You need to set up regular management

reviews with your outsource supplier," he says. "Make sure the supplier understands this requirement from the start: define the key performance indicators (KPIs) you'd like to review, how frequently you'd like to review them, and set clear guidelines for what will represent good, bad and mediocre KPI performance."

In Davies's opinion there are certain business functions that should not be outsourced. "An organisation must know and understand what its core and critical functions are, and these must be held within the body of the business and managed from within," he says.

"These critical competencies are often less tangible items like technical knowledge, design capability, quality control, market understanding and communication. Often these are the 'crown jewels' of the company, and should not be outsourced."

While outsourcing can be an effective way to reduce costs and improve performance and results in non-core areas, he stresses that an organisation always remains accountable for its own performance.

Davies says it is advisable for organisations to seek the assistance of experts to help in structuring roles, KPIs, review processes and standard procedures.

"Specialists can also project-manage, coach, manage performance and train the staff who will be handling contractors," he says.

His company trains people in key roles in how to manage operations and drive operational



**VIALE SOLUTIONS:** Simon Davies believes the core functions of a business should be handled in-house

improvements while its specialist teams work on site to deliver rapid performance improvements to lower costs and improve revenues.

Partners in Performance (PIP) advocates setting up systems, processes and skills to embed continuous improvement within organisations. "It has become apparent that many companies look at business improvement as an initiative and not as culture," Davies says. "Business improvement often comprises a series of one-off projects, but one-off improvement exercises by definition typically offer limited long-term benefit. It is our view that business improvement, once started, should be an ongoing process, not something that starts and stops in campaigns."

Sustainability is fundamentally reliant on two things: robust organisational systems and processes, and people with the skills and knowledge to manage the improve-

ment process, Davies says.

As the skills and capabilities of managers are core to sustainable improvement, PIP has developed a holistic training package that balances the practical, experiential learning with the requisite level of theory, and is designed to develop a broad skill-set for managing operations and leading operational change.

PIP's approach to training and coaching has proved so successful that Melbourne University now allows it to confer academic awards on client managers who work closely with it during on-site business improvement initiatives.

He says: "Giving the leaders in an organisation both the know-how and the know-why of managing operations improvement is essential if organisations are serious about keeping the 'continuous' in continuous improvement."

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