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### Global Study Reveals The Key Pitfalls Of Outsourcing

July 14, 2010

Results of a new global study reveal the concerns, effectiveness and best practices in risk management by organizations that outsource projects. Of the 95 percent of organizations that buy, provide or both buy and provide outsourced services and functions, fewer than half are able to effectively manage risk of outsourced projects.

Managing product or service quality is the top outsourcing risk to organizations, identified by 70 percent of survey respondents. Survey respondents included contractor managers, subcontractor buyers, project managers, senior executives, and key decision makers in outsourcing from a wide range of industries and government in North and South America, UK/Europe, Asia/Pacific, the Middle East and India. The study was conducted by ESI International.

"The ubiquity of project outsourcing creates opportunities for, and demands on, organizations to better develop and refine their outsourcing competencies," said J. LeRoy Ward, PMP, PgMP, Executive Vice President, Product Strategy and Management, ESI International. "The results of ESI's global survey indicate areas for greater performance, productivity and competitive advantages through better risk management."

#### Lack of Foundational Skills and Processes

With nearly two-thirds of organizations spending up to half of their budgets on outsourcing, there is a need to refine risk management capabilities in order to positively impact bottom line performance.

- Nineteen percent said their organization is not very effective at risk assessment of outsourced projects and 36 percent said it is only somewhat effective. Thirty-five percent said their organization is effective, and only six percent said they are extremely effective at risk assessment.
- Twenty-one percent said their organization is not very effective at risk management, 33 percent said they are only somewhat effective, 37 percent said they are effective and, again, only six percent said they are extremely effective.
- Only 39 percent of respondents said that their organization has a strong risk management culture.

#### Requirements Gaps in Outsourced Projects

Organizations indicate shortfalls effectively using requirements management and development, a critical area for managing outsourcing risk.

- Seventy-five percent of organizations do not always clearly define requirements of outsourced projects, which serve as the foundation of successful project management.
- Only one-third of organizations always clearly articulate and define financial goals to outsourcing partners.
- Nearly one-third (32%) of respondents disagreed that their organization continually evaluates outsourced projects in relation to their original goals and objectives.

#### Focus on Vendor Management and Contract Management

Greater focus on ensuring vendor performance and contract outcomes indicates that risk management competency in these areas may be a key differentiator among outsourcing partners.

- Of the top risks that concern organizations when outsourcing projects, 63 percent of respondents said vendor delays, 61 percent said clearly defined contract scope and 50 percent said poor vendor management.
- Seventy-six percent of organizations evaluate vendors' technical ability and past performance.
- Sixty-five percent of respondents said they issue comprehensive, clearly articulated requests for proposals/requests for quotes/tenders that enable standardized responses for comparable analysis.

#### Skills for Future Outsourcing

More than half of organizations acknowledge the need for improvement in their outsourcing capabilities, with additional training and support needs identified in key risk management skills.

- Of the top areas in which respondents said their organizations can use more training and information, 61 percent said risk management, 53 percent said risk assessment, 51 percent said managing quality of service in outsourcing, 49 percent said requirements management and development, and 47 percent said best practices around project outsourcing.
- Just 50 percent of respondents agree that outsourcing team members have appropriate project management experience and skills.

For more information, including an on-demand webinar, and a free copy of the full ESI Risky Business: Organizational Effectiveness at Managing Risk of Outsourced Projects report visit [www.esi-intl.com/outsourcingsurvey](http://www.esi-intl.com/outsourcingsurvey).

#### **Survey Methodology**

ESI International sent an email survey of 20 close-ended questions to contractor managers, subcontractor buyers, project managers, senior executives, and key decision makers in outsourcing in North and South America, UK/Europe, Asia/Pacific, the Middle East and India. The survey was conducted during April 2010. The number of respondents who participated in the survey was 615. Not all respondents answered every survey question. The survey was anonymous unless respondents wanted to receive the results, in which case they had to complete their details. Additional in-depth qualitative interviews were conducted by phone and email.

#### **About ESI International**

ESI, a subsidiary of Informa plc, helps people around the world improve the way they manage projects, contracts, requirements and vendors through innovative learning. In addition to ESI's more than 100 courses delivered in more than a dozen languages at hundreds of locations worldwide, ESI offers several certificate programs through our educational partner, The George Washington University in Washington. Founded in 1981, ESI's worldwide headquarters are in Arlington, Va., USA. To date, ESI's programs have benefited more than one million professionals worldwide. For more information visit [www.esi-intl.com](http://www.esi-intl.com).

*SOURCE: ESI International*