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Firms Going Global Often Overlook Supply Chain Risks

Survey suggests more robust risk management for those outsourcing key projects

By CAROLINE MCDONALD

Published 9/6/2010

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More organizations are going global and depending on outsourcing and international supply chains to get projects completed on schedule and within budget, yet fewer than half of those buying or providing outsourced services effectively manage the associated risks, according to an industry survey.

In fact, managing product or service quality was identified as the top outsourcing risk to organizations by 70 percent of respondents, according to Arlington, Va.-based ESI International, the project management firm that conducted the survey on "Risky Business: Organizational Effectiveness at Managing Risk of Outsourced Projects."

Survey respondents included contractor managers, subcontractor buyers, project managers, senior executives and key outsourcing decision-makers from a range of industries and government. They represented North and South America, the United Kingdom and Europe, the Asia/Pacific region, the Middle East and India.

J. LeRoy Ward, executive vice president for product strategy and management at ESI International, told National Underwriter that organizations that don't manage their risks in these areas can suffer.

For example, he said, the delivery of the Boeing 787 Dreamliner has had "project delays and huge problems," resulting in millions of dollars in contract penalties.

According to media reports, the Dreamliner is more than two years behind its original schedule. Production of the airplane was delayed five times in three years, and the first flight was postponed six times.

A large part of the problem, according to Mr. Ward, was that Boeing outsourced much of the project but didn't effectively manage the risk. This meant "an endless chain of suppliers," with any delay by a supplier affecting the entire chain—and ultimately the project's delivery.

He cited three major findings in the survey, including:

- Fifty percent of those responding believe their team members don't have the project management skills to do the job.
- The root cause of problems or failure in a project is that 75 percent of respondents don't always clearly define the projects. Mr. Ward emphasized that defining a project's goals and execution strategy is critical to its success.
- Only 11 percent of those surveyed "believed they were better than their competitors," he noted.



▶ OVER HALF OF THOSE SURVEYED acknowledged the need to improve their outsourcing capabilities, including more training and support in risk management skills.



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Mr. Ward observed that only about half of the organizations surveyed have a structured approach to risk management in place.

"They will do a risk assessment but then don't put a plan in place," he said.

Why does this happen? "People are busy. There's a need for speed," he suggested, noting that as a result, someone assigned to do a risk assessment may come up with a response, "but it's not followed through."

To be effective, Mr. Ward said, risk management needs to be a "mind set" within an organization, where it's "culturally okay to talk about risks." Otherwise, someone trying to identify risks in a company can come across as negative, he warned.



To avoid this dilemma, he suggested that project managers announce in advance that they are having a risk management meeting and that various ways to respond to any exposures identified will be discussed. This provides a forum for risk identification and loss control, he said.

Of the top risks that concern organizations when outsourcing projects:

- Sixty-three percent of respondents cited vendor delays.
- Sixty-one percent said clearly defined contract scope.
- Fifty percent said poor vendor management.

More than half of organizations acknowledged the need for improvement in their outsourcing capabilities, with additional training and support needed in key risk management skills, the survey found.

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Of the top areas in which respondents said their organizations could use more training and information:

- Sixty-one percent said risk management.
- Fifty-three percent, risk assessment.
- Fifty-one percent, managing quality of service in outsourcing.
- Forty-nine percent cited requirements management and development.
- Forty-seven percent said best practices around project outsourcing.
- Just 50 percent of respondents agreed that their outsourcing team members have appropriate project management experience and skills.

According to the survey, there is a 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, the group recommended.

In other survey results:

- Nineteen percent said their organization is not very effective at assessing the risks of outsourced projects, while 36 percent said only somewhat effective. Thirty-five percent said their organization is effective, and only 6 percent said they are extremely effective at risk assessment.
- Twenty-one percent saw their organization as not very effective at risk management, 33 percent said they are only somewhat effective, 37 percent said they are effective, but only 6 percent said they are extremely effective.



“ [Organizations] will do a risk assessment, but then don’t put a plan in place...It’s not followed through.”

J. LeRoy Ward, Executive V.P.
ESI International

- Only 39 percent of respondents said their organization has a strong risk management culture, according to the survey. Organizations indicated shortfalls in effectively using requirements management and development, a critical area for managing outsourcing risk.
- Of the top risks that concern organizations when outsourcing projects, 63 percent of respondents said vendor delays, 61 percent cited clearly defined contract scope and 50 percent said poor vendor management.
- 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 said they always clearly articulate and define financial goals to outsourcing partners.
- Nearly one-third (32 percent) of respondents disagreed that their organization continually evaluates outsourced projects in relation to their original goals and objectives.




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