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Avoid Outsourcing Divorce – Work on Your Relationships!

Defined Roles, Clear Expectations and Ongoing Communication Are Critical to Outsourcing Success

By Tim Smith

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“I now pronounce you ‘company’ and ‘outsourcing partner.’ You may bill the client.”

Okay. So an outsourcing relationship isn’t quite like marriage ... but it’s close.

Like any partnership, you have to work at keeping an outsourcing relationship healthy – and both parties happy. If you enter into an outsourcing arrangement as a way of simply off-loading unpleasant tasks or responsibilities, you’re already headed down the road to divorce.

In fact, a recent Dun & Bradstreet survey showed that 25 percent of all outsourcing agreements fail within two years, and 50 percent fail within five years! The reasons are predictable – misunderstood expectations, poor communication, lack of management attention and so on. It’s a shame because when done correctly, outsourcing can be a valuable, cost-effective strategy for any sized business.

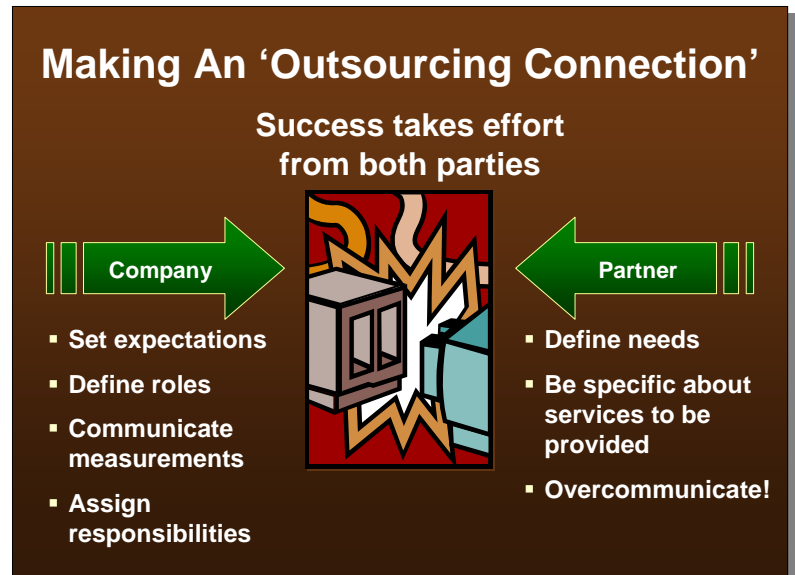
Outsourcing Can Simplify AND Strengthen

Keep in mind that outsourcing is not subcontracting. Outsourcing is transferring activities and decision rights that **could** be performed in-house to a third-party vendor.

Typically, it’s done to enable the company to focus on its core business or to access enhanced skills or expertise without the expense and distraction of

building an internal staff. It’s a way to both simplify and strengthen the organization.

And that’s why the majority of outsourcing occurs in support or administrative functions, such as IT, HR,



communications, finance or customer support. It’s difficult to develop skilled, experienced in-house staffs in those areas, and although it’s possible, it may be a better use of time and resources to focus on your company’s product or service.

Needed: Involvement and Oversight

Unfortunately, too often companies enter into vague and unmonitored partnerships – primarily because they fail to view outsourcing as a critical

management process. Thus, agreements aren't detailed enough, expectations aren't specified, measurement tools aren't put into place and responsibilities are fuzzy.

To put it simply, outsourcing is just like delegating internally. There must be ongoing management involvement and oversight to make sure work stays on track.

I recently helped a client salvage a struggling outsourcing relationship – one that was costing the company a great deal of time, money and customer confidence.

The main issues? The client had not explicitly defined the criteria that would be used to judge the partner's performance and service. At the same time, the service provider had not outlined what was needed from the client company. The result was a disconnect that had both sides frustrated.

The first step in finding a solution was to clearly define what was needed for the relationship to be successful – from both parties. We specifically defined each side's expectations.

Once that was complete, we clarified roles and responsibilities, and structured the tasks and processes necessary for work to flow smoothly.

The end product was a win-win for both the company and the outsourcing partner. Today, I'm proud to report, they are still happily "married."

Follow the Keys to Success

The problems my client faced in maintaining an outsourcing relationship are all too common. But they don't have to be. Follow these seven "keys to outsourcing success" and you'll find that your relationships are more productive and profitable:

1. **Include senior management.** Involve senior management from your company – and from your outsourcing partner – to establish a shared view concerning the future shape and nature of the organization. Define the role outsourcing will play in realizing the organization's strategies.
2. **Ensure mutual benefit.** Ensure that both parties benefit from the relationship by approaching your partnership as a strategic investment, not just a purchasing decision. Take time to understand and align the interests of both parties as the basis for trust and joint goals. Outsourcing is all about relationship management.
3. **Modify your organization and processes.** Restructure the organization and processes affected by the outsourcing arrangement. Design the mechanics of the relationship by rearranging the way the organization works as a result of the outsourcing. Attention to detail is essential!
4. **Measure performance.** Establish measurable goals and objectives. Create an unbiased, measurable scorecard in advance and use it as a keystone of the management process. Diligently track and measure performance, compare it to predefined performance standards (expectations) and provide feedback (both directions).
5. **Maintain respect.** Maintain mutual respect and learn from each other through open communication with affected parties. Have experienced people manage the relationship – people with personal, professional and economic incentives to make it work.
6. **Plan for the unexpected.** Define the process for escalating problems and negotiating changes and make them part of the regular, ongoing management of the relationship.
7. **Put it in writing.** Document the agreement in an appropriately structured contract.

More information? If you'd like to learn more about making outsourcing work more effectively, please send an e-mail to tim@plaidgroup.com, visit our website at www.plaidgroup.com or call us at 713-627-3569. The Plaid Group publishes a free bimonthly e-mail newsletter filled with insights and ideas you can use to enhance your company's operational performance, spur growth and increase bottom-line profits. To subscribe, change your e-mail address or unsubscribe, please visit http://www.plaidgroup.com/newsletters_subscribe.asp.

Author's Note: Tim Smith is a Principal with The Plaid Group. The Plaid Group helps companies simplify and stabilize their business operations to improve financial performance.