Think of Risk Management as a Competitive Advantage

By J. LeRoy Ward, PMP, PgMP

Whether buying or selling outsourced products or services, organisations cannot afford not to have a risk management plan in place. Assessing and responding to risks of outsourced projects directly impact an organisation's financial and operational performance, making risk management expertise essential, for both buyers and sellers of outsourced projects. New ESI International research shows that although more than 75 percent of organisations carefully scrutinise vendors' technical abilities, they seldom ask for, or review, the vendor's ability to manage risks. In our view, including one's ability to assess and manage the risk of delivery on an outsourced project would move your proposal to the head of the pile; and, those that write evaluation criteria should definitely be looking for the vendor's ability in this area.

Risk management capability should be thought of as a competitive advantage by organisations that buy or sell outsourced products and services. When assessing a vendor's ability to fulfil a contract, buyers should ask that risk management planning and execution be evident throughout the outsourcing life cycle.

Manage Risk Across the Outsourcing Continuum

The level of risk management depends on project complexity and scope. For example, a purchase order to purchase a commodity would have a lower degree of business risk than crucial business process outsourcing. Project managers should consider the level of risk as it relates to the kinds of outsourcing in which they are engaged. The following is ESI's outsourcing continuum.

- **Purchasing**—Buying simple products or services from an external vendor
- **Project-based Contract**—An agreement to purchase a specific set of deliverable items at an agreed price and defined schedule
- **Out-tasking**—Turning over a narrowly defined function or activity of the business to the external vendor
- **Selective Outsourcing**—Turning over an entire function or activity of the business to the external vendor
- **Business Process Outsourcing**—Turning over an entire business process to the external vendor

A recent ESI International survey shows that less than half of organisations adhere to best practices for risk management, thereby giving organisations which can demonstrate risk management capabilities a significant competitive edge.

- **Only 38% agree that they use quantifiable metrics to assess risk.**
- **Only 40% agree that their outsourcing teams put sourcing and risk mitigation strategies and plans in place after assessing project risks.**

SOURCE
Risky Business: Organisational Effectiveness at Managing Risk of Outsourced Projects, ESI International, 2010.

ESI™ INTERNATIONAL
an **informa** business

Manage Risk Throughout the Project Life Cycle

Assessing and managing risk throughout the life cycle of an outsourced project is as important as knowing the level of effort appropriate to the type of sourcing. While risk management plays a larger role in some stages than others, the opportunity exists for collaborative risk management between the key competencies in project management, business analysis and contract management throughout the sourcing process:

- Strategy and Planning
- Search and Select
- Negotiations and Contract Award
- Start-up and Transition
- Relationship and Governance
- Termination and Migration

Developing these risk management capabilities in outsourced projects will enable organisations to build competitive advantages, whether by helping grow market share or enhancing organisational growth through improved performance and results.

ESI™ INTERNATIONAL
an **informa** business

For more information on ESI's global outsourcing survey, please go to: **www.esi-intl.co.uk/outsourcing-survey**.

ESI International can help your company develop a customised, comprehensive learning plan to help you improve your requirements management. To learn more, please contact ESI at **enquiries@esi-europe.com** or **+44(0) 20 7017 7100**.