What are the key areas of risk when a firm enters into an outsourcing effort? How can these risks be reduced by following an effective outsourcing process?

Step 1:

Outsourcing is a business practise in which a company hires a third party to perform services or make commodities that were previously performed in-house by the company's own employees and personnel. Outsourcing is a cost-cutting strategy used by businesses to reduce costs.

Step 2: Key areas of risk when a firm enters into an outsourcing effort

1. Control Issues

Outsourcing's greatest danger is a loss of control.

When a business operation that was previously handled by an in-house team is outsourced to an external agency, you lose a lot of control. And when the service provider mismanages it, it might have an impact on the quality of the outsourced service.

Furthermore, the level of control is determined by the vendor's geographic distance.

In-person meetings and inspections become more challenging when the distance between you and your customers grows, forcing you to rely on virtual communication services.

This can make tracking performance and productivity difficult. Collaboration with overseas providers is also made more challenging.

This can Outsourcing Risk Be Managed

Consider what obligations you're willing to delegate to an outsourcing business before hiring one. To achieve so, you'll need a well-thought-out strategy.

Several project management measures can be included, such as:

Make meeting schedules.

Keep track of key performance indicators (KPIs) and metrics.

Determine who should be contacted.

2. Barriers to Communication

It is more difficult to connect over phone and video conferences than in person — especially in offshore outsourcing — regardless of the type of video conferencing solution you are utilising.

But there are scheduling challenges to consider with time, even if you work around it.

This can Outsourcing Risk Be Managed

Here are some ideas for bridging the communication gap:

Establish a set of core business hours.

Make good use of project management software.

Establish standardised communication formats.

Make use of appropriate escalation procedures.

3. Unforeseen and Hidden Costs

Outsourcing is primarily used to obtain a competitive edge through cost savings and profitability. However, it becomes a concern if it results in any hidden costs.

Compare vendor pricing with current in-house development costs, as well as any other expenses, before outsourcing a service. This provides a general estimate of the vendor fees.

This can Outsourcing Risk Be Managed

The first step is to explicitly identify the requirements for an outsourced project. This will ensure that the business process runs well and that errors are avoided.

You must also pay special attention to every detail and cost estimate provided by your outsourcing partner.

Finally, use staff productivity management software such as Time Doctor to precisely clock in the work hours of each outsourced employee.

You'll be able to see how long your jobs took and even track overtime hours so you can pay the vendor appropriately. Additionally, you can generate payrolls at any moment using Time Doctor's payroll administration tool.

4. Concerns about privacy and security

When you outsource to a service organisation, you are exposing your business assets to an external in some way.

That is why you must be concerned about privacy, intellectual property, and data security. Copyrights, patents, trade secrets, and other issues are all involved.

Though the chances of a third-party organisation stealing or leaking vital information or trade secrets are slim if you employ a reputable vendor, there's always the risk. This risk is amplified when you hire someone from another country who does not follow your country's laws.

How Can This Outsourcing Risk Be Managed?

To safeguard your organisation from this security risk, draught an unbreakable outsourcing contract or SLAs (service level agreement) with the help of an international lawyer.

5. Outsourcing Out a Key Product

It's a big decision to outsource your main product.

You become reliant on an outside vendor if you hire an offshore company to work on your primary project. While outsourcing saves money and makes the task easier, you eventually lose your product knowledge and key competency.

As a result, rather than exporting your entire product, it's better to recruit experts like engineers or analysts who can lead your team to develop it.