What are best practices?

Methods, techniques, and approaches used to effect the outsourcing decision that tend to result in a higher degree of outsourcing success (Dibbern, 2004)
What is a risk?

Negative (perception of danger) and importance is in its outcome (Benoit A. Aubert, 2005).

Uncertain event or condition that, if it occurs, has an effect on at least one project objective. May have one or more causes and one or more impacts (PMI, 2008).

Uncertain event or set of events that, should it occur, will have an effect on the achievement of objectives (OGC, 2009)

⇒ Cause
⇒ Uncertainty
⇒ Impact or effect
Risk statement

Because <cause>
It might be that <uncertainty>
Which will lead to <impact>

Example: Because I have never been in Brussels it might be that I will get lost which will lead to missing the U2 concert

Risk statement

Source: PMI (2009)
What is risk management?

Use of different mechanisms to lower the level of risk exposure (Aubert, 2005)

Risk management has two primary steps with each three sub steps (Boehm, 1991):

- **Risk assessment**: risk identification, risk analyses, risk prioritization
- **Risk control**: risk management planning, risk resolution, risk monitoring
What is project risk management?

Project Risk Management includes the processes of conducting risk management planning, identification, analysis, response planning, and monitoring and control on a project (PMI, 2008).

The systematic application of principles, approaches and processes to the tasks of identifying and assessing risks, and then planning and implementing risk responses (OGC, 2009).

The objectives of Project Risk Management: increase probability and impact of positive events, decrease probability and impact of negative events in the project (PMI, 2008).
Perform Risk Assessment
How to perform risk identification

Source: PMI (2009)
How to perform risk identification

**FUTURE**: Pre-mortem technique
How to perform risk identification

**FUTURE**: Pre-mortem technique

- Individual brainstorm
- Explain and categorize
- Determine impact
- Determine probability
How to perform risk identification

CURRENT:

• Key players on your project
• Critical path activities
• Monte Carlo simulations
How to perform risk identification

PAST:

- Checklist

- Undesirable outcomes of IT outsourcing (Aubert, 2005)
  - Identification of IT outsourcing risks
  - Based on Agency Theory and Transaction Cost Theory
## Risk Assessment Framework (Aubert, 2005)

<table>
<thead>
<tr>
<th>Undesirable outcome</th>
<th>Factor leading to outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unexpected transition &amp; management costs</td>
<td>• Lack of experience and expertise of the client with the activity</td>
</tr>
<tr>
<td></td>
<td>• Lack of experience of the client with outsourcing</td>
</tr>
<tr>
<td></td>
<td>• Uncertainty about the legal environment</td>
</tr>
<tr>
<td>Switching costs</td>
<td>• Asset specificity</td>
</tr>
<tr>
<td></td>
<td>• Small number of suppliers</td>
</tr>
<tr>
<td></td>
<td>• Scope</td>
</tr>
<tr>
<td></td>
<td>• Interdependence of activities</td>
</tr>
<tr>
<td>Costly contractual amendments</td>
<td>• Uncertainty</td>
</tr>
<tr>
<td></td>
<td>• Technological discontinuity</td>
</tr>
<tr>
<td></td>
<td>• Task complexity</td>
</tr>
<tr>
<td>Disputes and litigation</td>
<td>• Measurement problems</td>
</tr>
<tr>
<td></td>
<td>• Lack of experience and expertise of the client and/or of the supplier with outsourcing contracts</td>
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<tr>
<td></td>
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</tr>
<tr>
<td></td>
<td>• Poor cultural fit</td>
</tr>
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<td>Factor leading to outcome</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
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</table>
| Service debasement                  | • Interdependence of activities  
• Lack of experience and expertise of the supplier with the activity  
• Supplier size  
• Supplier financial instability  
• Measurement problems  
• Task complexity                                                                                      |
| Cost escalation                     | • Lack of experience and expertise of the client with contract management  
• Measurement problems  
• Lack of experience and expertise of the supplier with the activity                                      |
| Loss of organizational competency  | • Scope of the activities  
• Proximity to the core competency  
• Interdependence of activities                                                                         |
| Hidden service costs                | • Complexity of the activities  
• Measurement problems  
• Uncertainty                                                                                           |
Risk analyses

• Determine probability & impact
• Calculate risk exposure
• Sort on risk exposure
• Determine level of risk exposure that will be mitigated
• Define mitigation strategy
• Define risk (action) owners
Risk mitigation strategy

• Accept
  ➢ do nothing

• Avoid
  ➢ work on the Cause

• Mitigate
  ➢ work on Impact / Effect

• Transfer
## Mitigate Outsourcing risks (Aubert, 2005)

<table>
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<th>Factor leading to outcome</th>
<th>Possible mitigation action outcome factor</th>
</tr>
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</table>
| Unexpected transition & management costs | • Lack of experience and expertise of the client with the activity  
• Lack of experience of the client with outsourcing  
• Uncertainty about the legal environment | • avoid: plan extensively  
• transfer: note extra costs in contract |
| Switching costs      | • Asset specificity  
• Small number of suppliers  
• Scope Interdependence of activities | • avoid: use multiple suppliers |
| Costly contractual amendments | • Uncertainty  
• Technological discontinuity  
• Task complexity | • avoid: use sequential contract which are regularly reviewed |
| Disputes and litigation | • Measurement problems  
• Lack of experience and expertise of the client and/or of the supplier with outsourcing contracts  
• Uncertainty about the legal environment  
• Poor cultural fit | • mitigate: governance structure to solve issues  
• avoid: thoroughly study culture upfront  
• measurement (risk versus benefits) |
# Mitigate Outsourcing risks (Aubert, 2005)

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                      • Lack of experience and expertise of the supplier with the activity  
                      • Supplier size  
                      • Supplier financial instability  
                      • Measurement problems  
                      • Task complexity |
|                     | • avoid: detailed benchmarking via KPI  
                      • mitigate: penalties |
| Cost escalation      | • Lack of experience and expertise of the client with contract management  
                      • Measurement problems  
                      • Lack of experience and expertise of the supplier with the activity |
|                     | • avoid: use good measurements  
                      • avoid: internal competition between suppliers |
| Loss of organizational competency | • Scope of the activities  
                      • Proximity to the core competency  
                      • Interdependence of activities | • avoid: carefully choose parts to outsource |
| Hidden service costs | • Complexity of the activities  
                      • Measurement problems  
                      • Uncertainty | • avoid: agreed transition period  
                      • mitigate: insourcing |
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<td>• Outsource only non core competence activities</td>
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<td>• avoid: agreed transition period&lt;br&gt;• mitigate: insourcing</td>
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</table>
Perform Risk Control
Plan Risk Management

• Assessment

• Follow up actions
Deming circle

"Diagram by Karn G. Bulsuk (http://www.bulsuk.com)"
Risk control

Source: PMI (2009)
Key Takeaways

• risk management awareness

• clear definitions of terms used in risk management

• insight in the framework of Aubert for managing risks in an outsourcing project

• an easy to use process for risk identification and risk mitigation actions definition
References


• PMI. (2009) “Practice Standard for Project Risk Management”

• The Stationery Office on behalf of OGC. (2009). “Prince2 Pocketbook”
Questions?