



**: Cloud based Risk Analysis and Management platform,  
helping organisations evaluate and monitor risks in  
complex strategic **sourcing decisions****

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**Multiple Perspective Risk Management, Due Diligence  
and Compliance Evaluation**

## Risk: at the centre of your business

Every organisation, large and small, is exposed to risk in everything they do, at every level of the organisation, every day! Yet the vast majority of people in organisations act as if they are somehow immune to risk, or that risk is something that belongs to someone else (a client, a supplier, an investor, a bank, members of the public or the directors).



Recent history in financial and energy markets illustrates the point. Organisations, large and small repeatedly fail to spot the consequences of risk, They fail at all points of the compass, they: don't identify risk; fail to take risk seriously; don't attempt to view risk from other people's perspective; delegate risk to others as if to say if I delegate it, it doesn't exist; fail to institutionalise risk assessment to properly understand the nature of risk and who is impacted by their business decisions.

Too few organisations seek to systematically understand the risks they are, or will be exposed to; especially when dealing with external stakeholders. How many organisations actually bother to understand whether other organisations they partner with and delegate risk to, actually understand the risks they are assuming?

Strategic business relationships, such as outsourcing, alliances and JVs can create new value because of the expertise and opportunity another organisation brings. Strategic relationships between key suppliers and their customers can bring benefits such as efficiency savings, improved customer satisfaction and innovation. The benefits can be significant. Yet over 50% of outsourcing deals fail to deliver on expectations. Poor collaboration, poor mutual risk management and a weak relationship, too often results in significant loss of the value of the original business case.

## Managing risks: within sourcing initiatives

Although the number of organisations pursuing strategic outsourcing initiatives continues to rise, numerous studies reveal that more than half of these investments fail to return the benefits executives expect; derailing an organisation, losing significant time and money in sunk investment, and in some cases harming the relationships with customers.

There are a broad range of contractual, operational, political and cultural risks that can quickly derail an outsourcing initiative. Many executives struggle to manage this uncertainty.

While there are different explanations for sourcing failures, each can be traced back to a fundamental lapse in managerial understanding, oversight and control; in affect to a failure in governance.

There are serious practical obstacles in trying to apply outsourcing governance, efficiently and continuously on a day to day basis. The first problem organisations encounter is difficulty in indentifying and analysing risks, the first step towards managing them.



## Common risks: that cause failed outsourcing initiatives

- **Organisations take for granted certain risks** - which can focus resources on lower priority risks and ignore more critical or impacting risks.
- **Certain risks exist naturally as a result of outsourcing** - many organisations assume sourcing to be the same as procurement and too little attention is paid to the understanding of the wider risks.
- **Risk is everywhere** – but very few organisations attempt to establish a coherent view of risk.
- **Risk is personal** – consequences of risk are visited on all stakeholders, yet most organisations task a handful of personnel to make sourcing decisions.
- **Risk cannot be delegated** – regardless of whom risk is delegated to, and who may assume it, the originator is still responsible; senior management typically do not have an organisation-wide deep understanding of all dimensions of risks, and as such, cannot manage risk on their own.
- **Risk is probabilistic** – there are always a set of circumstances that can bring about the outcome least desired – yet very few organisations attempt to mitigate for these.
- **Risk has both positive and negative outcomes** – too many organisations focus on the negative aspects of risks. An understanding of the positive aspects of risks can bring about substantial additional value.



## Consequences: of poor outsourcing programs

- **Under delivery** – affecting the ability to carry out business effectively, and can damage relations with customers, the public and other supply chain partners.
- **The need to write off large sunk investments** - significant time and effort is spent in developing a sourcing strategy, vendor search, selection, contracting and monitoring costs.
- **Significant conflict amongst the various stakeholders within the organisation** - this is not uncommon, given multiple stakeholders and vested interests, possibly in multiple locations. This causes significant tension in the relationship with the vendor, and usually means the organisation never achieves its goals. It may also cause significant disruption in the day to day running of the business.
- **Disjointed implementation** - because the final contracts tend not to reflect the initial strategy. This results in expensive extended transition costs and a situation where expected benefits are never achieved.
- **The wider benefits from strategic sourcing get lost** - because strategic sourcing is still in some senses a relatively recent business practice, with little in terms of best practice frameworks or industry tools. Most organisations use ad-hoc methods for developing strategy, as well as implementation. This usually means the wider benefits that outsourcing can bring in terms of organisational structural redesign, access to innovation, flexibility and sharing of risks, tend to get lost, with focus always shifting to just cost reduction.

**One of the best ways to gain control is to establish formal organisation wide governance that enables the centralised analysis and management of all risks associated with sourcing decisions**

# Risk Management: localised view from a global perspective

## Governance Director (GD) enables:

- The identification of the various forms and sources of risk throughout the organisation.
- The acquisition of risk assessment information from within and beyond the organisation.
- The evaluation and quantification of risks even when there is limited formal information.
- Prioritisation of the various risks, from different stakeholder perspectives.
- Visualisation of the organisation's current state with respect to risk.
- A systematic approach to risk mitigation.
- A non-bureaucratic approach to governance that engages stakeholders, allocates responsibility, and helps link strategy to implementation and assurance.



As an example our “Sourcing Readiness Assessment” risk assessment model (just one of many models available) helps an organisation assess its readiness for strategic sourcing initiatives. The template considers a range of risks that are known to impact the success of such initiatives. The template includes 180 risk considerations, arranged across 11 higher level risk categories incorporating 43 risk factors, including:

1. **Long Term Requirements** – Assessing the longer term impact in terms of the business, process, performance, quality and commercial requirements.
2. **Short Term Priorities** – Assessing the alignment of goals that are sought to be achieved by all stakeholders.
3. **Organisation-wide readiness** – Assessing group level strategic considerations, process level considerations, resourcing strategy, commercial management.
4. **Performance Measurement Capabilities** – Assessing the capability and existence of process mapping, ABC, baseline metrics, benchmarked service levels.
5. **External Suppliers Service Capabilities** – Assessing the supply market risks and market predictability.
6. **Risk Manageability** – Assessing the ability to manage strategic, commercial, HR, and operational risks.
7. **Stakeholder Readiness** – Assessing the readiness of stakeholders within the organisation in terms of process, programme management, change management, contracting skills.
8. **Business Case** – Assessing the relative competitive advantages, financial returns, resourcing benefits, service benefits, flexibility that is predicted by the business case.
9. **Enabling IT & Security Infrastructure** – Assessing the capability of the IT infrastructure to support sourcing initiatives in terms of IT planning framework, information architecture, IT organisational structure and IT risk assessment frameworks.
10. **Project Definition** – Assessing the impact of sourcing on the business, risk-reward validation, strategic fit, sponsorship.
11. **In-House Service Capability** – Assessing the service delivery capabilities in the short and long term.

## Consequences: of not evaluating organisation readiness

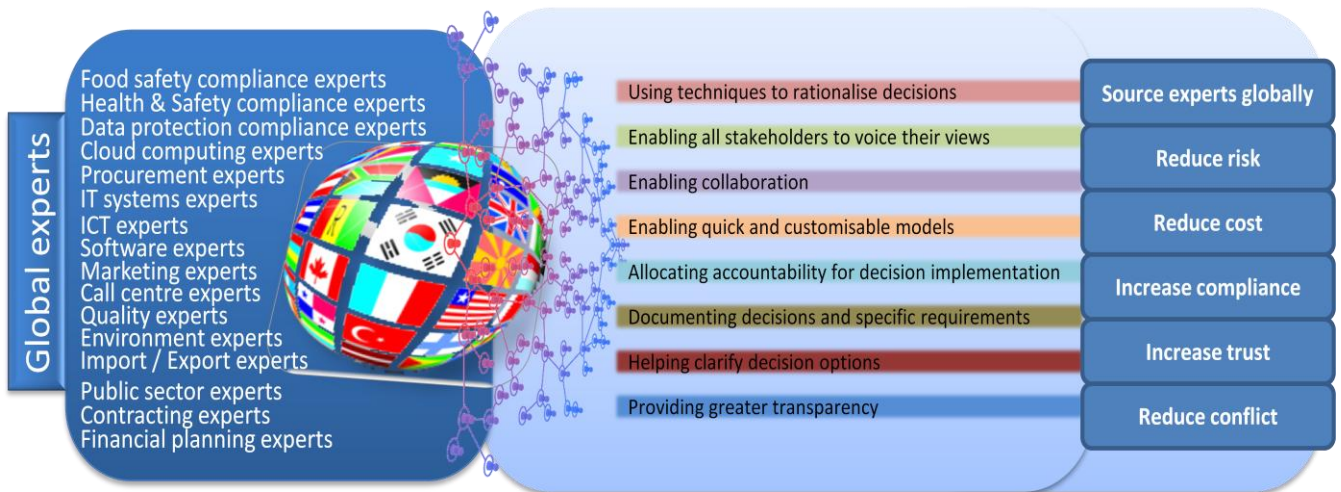
- Longer term competitive disadvantages from **outsourcing core activities**
- Unclear goal expectations amongst the organisational stakeholders, creating **discord within the organisation**
- Unclear goal expectations with the vendor – resulting in **conflict and miscommunication**
- Inability to implement a smooth transition of the activity or process, **adversely affecting performance**
- Inability to control the sourced activity – being **at the mercy of the vendor**
- Inaccurate business case, which may ultimately **deliver lower value and higher costs**
- Limited ability to understand and manage risks emanating from the initiative – **cost escalation**
- Extra **unforeseen investment requirements** post implementation

# Why: Governance Director



GD helps ensure organisations make robust and intelligent sourcing decisions, and stakeholders act in accordance with self imposed risk management parameters to ensure effective risk mitigated implementation:

- ✓ GD centralises control of governance and risk assessment, building a repository of knowledge within the organisation.
- ✓ GD enables organisations to undertake rapid but comprehensive risk assessment by releasing and harnessing knowledge that already exists in the brains of the individuals across the whole organisation without expensive, drawn out, investigations by experts and consultants.
- ✓ GD provides immediate opportunities for implementing a risk management platform within the organisation – converting a process which takes months into days.
- ✓ GD helps allocate accountability for risk management and assessment throughout an organisation and by employing workflow management processes, ensures timely understanding and assessment of risk.
- ✓ GD employs advanced mathematical techniques to help understand the relative importance of risk factors, aided by visual analytics to help simplify the understanding of risk exposure and remediation progress for all stakeholders.



- ✓ GD Knowledge Exchange sits side by side with the risk analytics platform, and crowd sources risk models and checklists from global experts.

## Key benefits: from using GD

### Reduce Costs

- Saves costs over the long term through better aligned sourcing decisions and partners
- Automates the decision process, reducing the time to decision implementation
- Achieves greater efficiency by systemisation of the decision and risk management process

### Reduce Risks

- Reduces personal and organisational risk by creating a shared understanding of need, wants and risks
- Helps identify key risk factors which can be leveraged to negotiate better deals with suppliers
- Ensures implementation of strategic decisions, helping deliver the business case
- Satisfies regulatory obligations for good governance through process documentation

### Increase Value

- Manages conflicting strategic goals and stakeholders considerations to deliver shared goals
- Helps move away from a purely cost focused assessment towards assessment of partnership qualities
- Engages with stakeholders and allocates accountability, encouraging local level innovation

## Best practice: sourcing risk assessment and analysis templates

Governance Director makes available, best practice risk analysis templates for sourcing, which can be used within the platform to understand, evaluate and manage risk across the organisation, without the need for additional infrastructure investment or overly bureaucratic processes.

Some of the templates currently available include (*the figures within the brackets indicates the approximate number of specific risk considerations included within each of the template models*):

### Sourcing Strategy

- Sourcing Readiness assessment (180)
- Sourcing Engagement model (110)
- Relationship Management (200)
- Quality assessment (115)
- Governance assessment (120)

### Sourcing Implementation

- Security assessment (60)
- Contract Development (215)
- Vendor assessment (205)
- Cultural Alignment (120)
- Offshore Locations assessment (68)

### Functional templates

- Legal process outsourcing (65)
- Contact centre outsourcing (65)
- Software make or buy (30)
- Cloud IT security risk (65)

Clearly, not all risk considerations are of equal importance; some will be more impacting than others. Applying the 80/20 pareto rule can help, however, without knowing precisely which 20% are more important than others, especially given that the eco-system, the culture, the existing infrastructure, the processes, the project management approach, the organisational history, differs from one organisation to another, it is extremely important to consider the entirety of risk considerations, before narrowing down to those that may be deemed to be more significantly important.

**Transforming risky, complex sourcing initiatives into rational, cooperative, risk mitigated outcomes**