

## Outsourcing – boon or high risk for the small business?

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When you want to book a hotel, call QuickBooks™<sup>1</sup> for technical support or even get your taxes done, chances are good that the voice you hear on the line may be in India, the Philippines, China or Panama. If we haven't accepted it, we at least are no longer surprised by

this fact of modern life.

Initially, only the large companies with deep pockets were venturing into the world of outsourcing and primarily in the area of customer service. However, business economics as well as the book, *The World Is Flat*, by Friedman, leads to businesses of all sizes and diverse employee needs getting on the bandwagon.

And not all companies are strictly seeking a pricing advantage – typically it costs 75 percent less to accomplish the same task offshore rather than in the United States. In some industries, such as consulting engineering firms, the acute shortage of qualified personnel drives companies off shore just to get the people they need to continue growing – the pricing advantage is a welcome bonus but not the main impetus.

While the outsourcing trend is not going to slow anytime soon, outsourcing is not the pat solution it first appears and depending on the resources of the firm, can create a high risk situation for any business and extreme risk for the small business.

Douglas P. Folk, Esq., an attorney practicing in Phoenix Arizona whose practice focuses on Architectural, Engineering and Construction firms, stresses that small firms who outsource are exposing themselves to a high risk situation and often without the proper resources to manage the risk.

One of the big pitfalls is exposing your company to foreign labor laws. Folk recommends legal advice to avoid this.

In my own practice, the basics apply – set up lines of communication, quality expectations, standards, training, legal agreements prepared by experienced competent counsel and choosing your partner carefully. I have been called into several firms *after* they are in jeopardy with overseas firms missing crucial deadlines, producing poor quality work and inadvertently placing themselves under the labor laws of the other country therefore exposing themselves to fines and penalties. The last situation requires the assistance of a competent international

attorney and at that late stage of the challenge, there is often no economical solution.

It is perhaps human nature to assume that when deadlines are given and accepted that the product or service will be delivered on time. The biggest predictor of future results is past behavior. Therein lies a hidden challenge with outsourcing. Not only does the company hiring the outsourced labor not have a track record with the foreign employees, they often don't understand the culture. It is wishful thinking to assume that deadlines and quality that are difficult to manage between people of the same culture will somehow be easier with cross cultural teams! While many of the countries providing outsourced professional services have an extraordinary work ethic, there are still cultural expectations that without careful training will be challenging.

Professional firms whose principals, while expert in their profession, often do not have the global experience required to anticipate the issues. If they do not have competent legal counsel as well as a seasoned international consultant, they can easily find that they are exposed to a risk they did not anticipate.

If outsourcing is something your firm is considering, attorneys like Folk and Youngblood's consulting firm suggest the following Best Practices:

1. Have good quality control
2. Invest in training – bring key managers over from foreign countries to train with and build relationships with your key people
3. Make sure you have adequate resources and can recoup your startup investment in a reasonable time
4. Have competent legal counsel before you go overseas
5. Train your people culturally
6. Don't be seduced by low wages only – carefully evaluate your start-up costs and break even points ]

Outsourcing is not a trend – for many firms it is currently solving real business problems and the practice is sure to grow. It may be a powerful solution to some of your business challenges but only if approached carefully with an eye toward minimizing risk.

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