



Business process outsourcing – the pros and cons

There are various reasons why organizations outsource processes and operations

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The pursuit of process excellence is different for every organization, dependent on a number of factors. However, the aim is universal – to make processes as productive and efficient as possible in line with business aims. One of the many process excellence decisions businesses have is whether to outsource operations.

Business process outsourcing (BPO) is a subset of outsourcing that involves the contracting of the operations and responsibilities of a specific business process to a third-party service provider. Originally, this was associated with manufacturing firms, but is a common element of business operations today.

There are several reasons why an organization may choose to outsource its processes, with resource, geographical and regulatory factors just a few.

"Modern organizations have a plethora of outsourcing choices – from customer service to software development." Russel Crampin, managing director at Axians UK, tells PEX Network. Accounting, HR, legal services and market research are the most frequently outsourced, he adds. "All these third-party projects, however, require a careful evaluation of costs, risks and strategic value to determine what options make the most sense based on the requirements of the business in question."

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Outsourcing is an operational game-changer

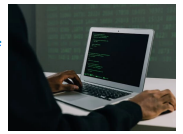
Outsourcing is highlighted as an operational "game-changer" in a recent survey by RSM, a leading provider of assurance, tax and consulting services for the middle market. The research explores how 100 US and Canadian family offices are adapting their operations to overcome complex challenges such as evolving tax laws, technology advancements and the ongoing talent shortage. It found that outsourcing has emerged as a strategic solution that 96 percent of survey respondents leveraged in the past 12 months.

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The survey reveals more favorable attitudes toward outsourcing among smaller and newer family offices when compared to their larger and longer established peers – 80 percent versus 63 percent and 32 percent, respectively.

BPO offers notable potential benefits, as well as significant challenges and important considerations. Here are the pros and cons of BPO.

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Business process outsourcing pros

Cost savings

One of the biggest advantages of BPO is undoubtedly the potential cost savings it brings to the table. "By outsourcing certain business processes, we can tap into specialized expertise without the hefty price tag of maintaining an in-house team," says Jon Morgan, CEO of business consulting service [Venture Smarter](#).

Core operations focus

The ability to prioritize core operations is a sought-after benefit of a BPO model, with companies outsourcing certain processes to focus on their primary function. "This allows us to allocate resources more efficiently and invest in areas that directly contribute to our core competencies and business objectives," says Morgan.

When a family office (for example) chooses to outsource their non-core functions, they can better focus their resources and attention on their core competencies such as wealth preservation and strategic planning, thus enhancing overall efficiency and effectiveness, states the RSM report.

"If the sales team is working effectively, it might be more valuable to outsource procurement or IT and focus resources," adds Crampin. Lagging departments don't tend to fail in isolation but drag other aspects of the business down around them. Outsourcing means that each department is functioning optimally and can produce results that enhance the rest of the business.

External expertise and talent

Outsourcing operations is a great way to access external expertise and talent. Many companies can't find, lead and keep specialist experts, with two-thirds of technology companies struggling to retain staff. "Outsourcing to specialists that maintain a staff of experts creates a competitive advantage," says Crampin. In cyber security (for example) BPO adds another layer of protection. Trusting specialized providers means accessing the latest security measures and expertise, fortifying defenses against cyber threats while maintaining cost effectiveness and operational efficiency.

"Outsourcing enables us to access a global talent pool," says Morgan. "We are not limited to local talent and we can choose the best providers from around the world. This diversity in skills and perspectives often leads to innovative solutions and enhanced creativity within our projects. Plus, it fosters a more inclusive and dynamic working environment, which is always a win-win."

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Jake Munday, CEO and co-founder of Custom Neon, a designer and manufacturer of LED neon lights and signs, outsourced the complex financial operations of the organization. "Outsourcing our accounting to a certified public accountant (CPA) brought in specialized expertise. The accuracy in financial management that was necessary to assist the organization's decision-making was made possible by this work," he tells *PEX Network*. Outsourcing offered the firm access to top-tier financial expertise without the overhead, enhancing operational efficiency, he adds.

Scalability opportunities

Then there's the scalability that outsourcing offers. "Outsourcing fosters business agility by facilitating a quicker response to changing market conditions," says Debashis Sarkar, managing partner at Proliferator Advisory & Consulting and *PEX Network* Advisory Board member.

As a company grows, the demands on various departments can fluctuate. "Outsourcing allows us to quickly adapt to changing needs by leveraging external resources," says Morgan. Whether it's customer support, IT services or other processes, outsourcing allows the company to easily scale up or down without the headaches of hiring or downsizing internally. "It's like having a flexible workforce at our fingertips," Morgan adds.

Business process outsourcing cons

Reduced operational control



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One of the biggest challenges of BPO is the loss of operational control that comes with outsourcing processes. "As outsourced operations are handled externally, companies have less oversight and direct influence over how activities are executed," says Crampin. While this is something they typically enjoy, resentment can creep in if there is a deficit in trust or transparency, he adds. "A lack of either is a stumbling block that can derail an effective partnership."

You're essentially entrusting a part of your operations to an external party, adds Morgan. "This lack of direct oversight can be nerve-wracking, especially when it comes to maintaining the quality and standards we've worked hard to establish. Ensuring that our outsourcing partners align with our values and standards becomes crucial in mitigating this potential drawback."

Communication hurdles

Communication hurdles can also rear their heads when outsourcing operations as it can be difficult to guarantee effective communication with a team that is external. "With teams operating across different time zones and possibly in different languages, the risk of misunderstandings and miscommunications increases," says Morgan. Clear and effective communication is the lifeblood of any successful business, and when you add geographical and cultural differences to the mix, it can sometimes lead to delays, errors or even a sense of detachment between internal teams and the outsourced functions.

Dependency issues

BPO can lead to dependency problems too. "Relying [too heavily] on external providers for critical functions can leave us vulnerable," says Morgan. "If our outsourcing partner faces challenges, be it financial instability, changes in leadership or unforeseen disruptions, it could directly impact our operations." Striking the right balance between outsourcing for efficiency and maintaining sufficient in-house capabilities becomes a delicate dance to avoid over-reliance on external entities.

Other potential BPO challenges to be aware of include a lack of strategic alignment with vendors, cultural mismatches and inadequate due diligence, adds Sarkar.

How to ensure effective BPO

Unlocking the full potential of BPO relies on several key factors. "Firstly, both internal and external teams must be in strategic alignment – ensuring outsourced tasks align with organizational goals," says Crampin.

Then dive into the nitty-gritty: weigh costs, benefits and risks to make informed decisions. "Setting clear expectations and quality standards is crucial, as is keeping lines of communication wide open for ongoing governance and relationship management," Crampin adds. It's critical to understand where gaps and overlaps in capability exist throughout the partnership – this prevents work duplication or worse, key functions going neglected.

Part of closing any gaps in capability involves developing relationships with key stakeholders, which helps foster collaboration and innovation. Long-term success is predicated on staying flexible and adapting to changing needs and capabilities. "Customer education is part of this process; businesses need to understand what they are receiving when engaging in a BPO agreement," says Crampin.

A flexible contract that adapts to your evolving needs is also crucial, as are robust risk management practices, adds Sarkar. "Finally, choosing a vendor with a culture of continuous transformation is essential. This ensures they can keep pace with your changing requirements and deliver services that consistently add value to your firm."



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