UDC 368.12

H. O. Partyn
Ph.D. in Economics, professor in the finance department
of Lviv Polytechnic National University

O. V. Didukh
Postgraduate student in the finance department
of Lviv Polytechnic National University

THE OUTSOURCING OPERATION RISK MANAGEMENT BY THE CORPORATE CUSTOMER

Abstract. The article deals with the peculiarities of outsourcing risk management when making decisions about its usage in production and commercial operations of the enterprise. The main factors of risk development have been systemized, as well as the estimation procedure of the level of their impact on the enterprise has been developed, based on the determination of the expected amount of losses.

Key words: outsourcing, outsourcing risks, factors of outsourcing risk development, the expected outsourcing risk level, threshold outsourcing risk level.

Problem statement. The adaptation to the conditions of modern business environment calls for reduction of expenses and optimization of the production organizational framework. Consequently, enterprises use new management tools of production and commercial operations (including outsourcing) with increasing frequency. The international practices show that outsourcing is one of effective ways of doing business, in view of all the advantages that a corporate customer receives with its usage. However, outsourcing operations are also associated with certain risks, of both internal and external origin, as related to the enterprise. Thus, risk management in the process of cooperation between the enterprise and the outsourcing company is one of the important tasks to ensure high operating results of contractors.

Analysis of research studies has shown that the problem of quantitative assessment of risk exposure in the course of cooperation between outsourcer and customer today remains unsolved. In the analyzed literary sources the majority of authors, in particular O.V. Manoylenko, I.V. Popovychenko, N.Y. Omarova, I.I. Zavodovska, A.H. Zahorodniy, pay principal attention to the definition of the most important types of outsourcing risks. [3, p. 44; 4, p. 90; 6, p. 11; 8, p. 181; 9, p. 179]. Some scholars, such as O.P. Lohvinova, M.V. Kotok, K.O. Spiridonova, investigated factors of risk formation in outsourcing operations in order to develop measures to neutralize their effect [5; 7, p. 119; 10, p.160]. Thus, literary sources reveal the theoretical aspects of the outsourcing risk analysis. However, not enough attention is paid to the evaluation of their impact on the results of corporate customers' production and commercial operations.

The aim of the article is to determine the risk assessment peculiarities of outsourcing operations and risk management; to develop the expected outsourcing risk level in the economic activity of corporate customers.

Results and discussion. Risk management is one of the most important tasks in the organization of cooperation between the customer and the executor of outsourcing operations. Therefore, outsourcing requires making effective managerial decisions regarding evaluation, analysis and control of risk-related situations that may arise in the economic activity of the enterprise.

Risk formation in the course of cooperation between the outsourcer and the customer is due to the influence of certain factors of both internal and external origin as related to the corporate customer. Classification of these factors is presented on Fig. 1.

The description of composition and effect peculiarities of the main factors of risk formation in the course of cooperation between the outsourcer and the customer is represented in table 1.

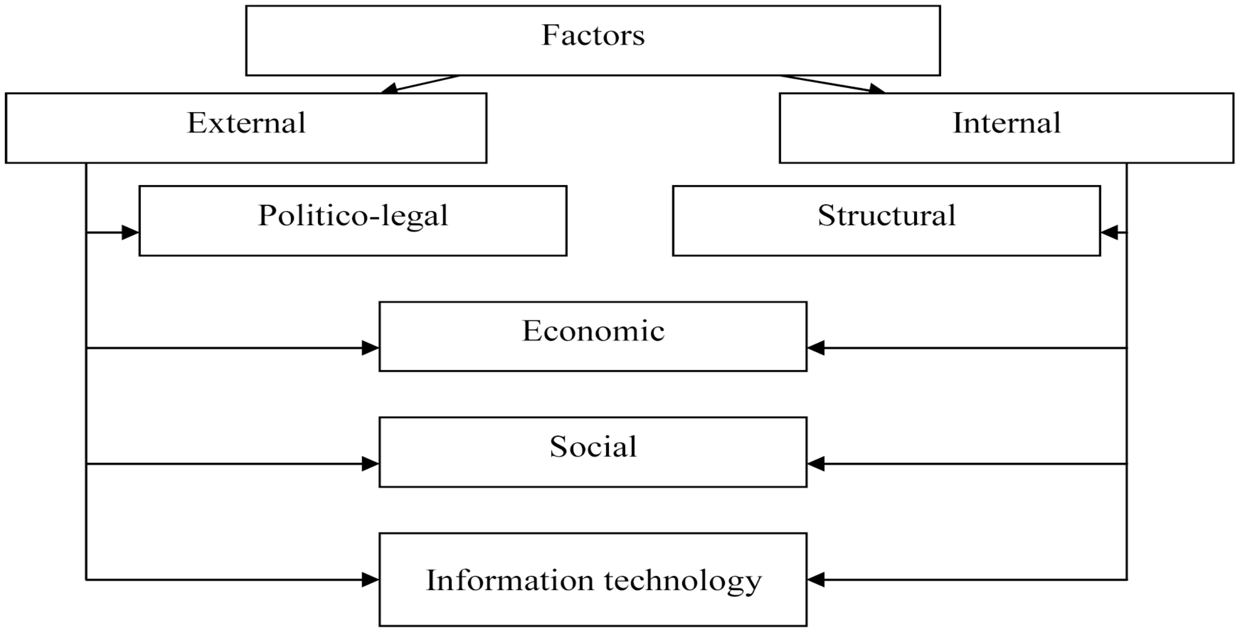

Fig. 1. Factors classification of risk formation that arise in the course of cooperation between corporate customer and outsourcer

* – authors' own elaboration

Table 1

Factors of risk formation that arise in the course of cooperation between corporate customer and outsourcer*

Factors	Description
Politico-legal	Risks driven by the changes in political situation in the country of the customer or the executor (if international outsourcing is used), quality level of normative legal regulations within outsourcing activity.
Economic	Risks that depend on the outsourcing market development, quality of outsourcer selection, validity level of the outsourcing deal conclusion, and quality of execution control as to the performance of outsourcing operations.
Social	Risks inherent in the emergence or increase of social tension level in the group due to the changes of the employees' tasks or due to staff reduction.
Information technology	The risks of technology or information resources misuse by the customer or the executor of outsourcing operations. These risks are driven by the low information awareness level of the enterprise about potential adverse effects of outsourcing activity.
Continuation of table 1	
Structural	Risks inherent in reorganization of the corporate customer when the execution of business processes becomes the responsibility of the outsourcer.

*- authors' own elaboration

Within the outsourcing risks originating under the influence of external in regard to the enterprise factors one can also specify two distinct groups: risks due to improper performance of their function by outsourcers, and risks due to the fault of the highest legislative and administrative state bodies. The detrimental effect of the first group of risks may be considerably lowered by means of appropriate preparation and conclusion of the outsourcing deal. At the same time, an enterprise cannot control the risks related to the second group. Thus, it has to adapt its activity to the peculiarities of their influence in time. Corporate customer has the biggest influence on the risks that arise within his corporate organization, if relevant methods and tools are used. Taking this into account, the corporate customer of the outsourcing services has to form an effective system of cooperation risk management.

Risk management of outsourcing operations is the process of their identification, evaluation, monitoring and control, as well as development and implementation of measures aimed to decrease the detrimental effect of these risks on the corporate customer's performance results.

Risk management of outsourcing operations should be conducted by the corporate customer in two stages: the first stage is preventative management; the second stage is current management (see Table 2).

In order to manage outsourcing risks that arise in the economic activity of the enterprise one should:

- create an effective system for identification and determination of risks;
- ensure proper significance assessment of risk influence on the corporate customer activity;
- develop compensatory mechanisms to prevent or reduce the level of risk exposure of the enterprise.

To properly form the outsourcing operation risk management system the first things one should understand are the main objectives and concerns which the owners and managers of the enterprise put forward when they make a decision about outsourcing. They are usually divided into short-term (cost reduction and growth of profits) and long-term (increase in the economic potential of the enterprise, growth of competitive ability, improvement in the quality of production, etc.) [2, p. 84].

Despite the fact that in the analyzed literary sources authors pay attention mainly to the definition of risks inherent in outsourcing operations, and not to the assessment of their influence on the results of the production and commercial operations of the enterprise, risk management process should be based on the analysis of uncertainty level of future outcomes as well as on the amount of expected losses. This assessment can be done using appropriate methods, particularly analogue, expert, calculation and analytical, economical and statistical methods, etc. [1, p. 121].

Deciding to use outsourcing operations one should also define the following: risks that the enterprise may assume; risks, the effects of which should be limited or diversified; risks to be avoided. For this purpose it is reasonable to form management strategy for the risks arising from outsourcing activity. Major questions in the course of such a strategy formation are determination of threshold risk level an enterprise can assume, taking into account its own supply of proper manufacturing, labor and financial resources and ability to neutralize detrimental effects of risk-related situations, associated with outsourcing. An enterprise should stop cooperation with outsourcer if risk level of outsourcing deal exceeds the enterprise capability to compensate the expected losses caused by risk-related situation by means of internal resources. Consequently, threshold risk level of outsourcing operations is the highest possible risk an enterprise may agree to assume in the course of cooperation with outsourcer, taking into consideration current economic strength of the outsourcer and peculiarities of objectives and development in the market. The decision to transfer the execution of business process to the third party can be made if the following relation is executed:

$$\textit{Expected risk level (R)} < \\ < \textit{Threshold risk level (Thr)} \qquad (1)$$

Table 2

Description of two stages in risk management of outsourcing operations conducted by the corporate customer*

Stages in risk management of outsourcing operations	Peculiarities of management stages
Preventative management	It is carried out before starting cooperation between corporate customer and outsourcing company. It focuses on exclusion of potential adverse effects on the enterprise activity and determination of measures as to the reduction of intensity of their impact.
Current management	It is carried out in the course of outsourcing cooperation. It focuses on analysis of possible deviations of actual risk level and the expected risk level, and on the implementation of measures concerning the reduction of detrimental effects of risks on the production and commercial operations of the enterprise.

* – authors' own elaboration

Expected risk inherent in cooperation of corporate customer and outsourcer is an integral figure that depends on the impact intensity of the associated with this process risk system and probability of risk-related situations. The intensity of risk exposure is characterized by the amount of damage and loss inflicted to the production and commercial operations of the corporate customer. This figure should be determined separately for each type of risk that may arise in the course of outsourcing operations. The amount of loss inflicted by certain risk-related situation may differ depending on the type and form of outsourcing, as well as on enterprise capability to compensate the expected losses by means of internal resources. Level of risk effects may be assessed by means of quantitative calculation and expert methods. The level of financial and economic expenses can be determined on the basis of quantitative calculation in case of some risk exposure. The larger is the volume of estimated expenditures the more risk-related the cooperation with the outsourcer is. Expert methods may be used to assess the risk effects on the qualitative characteristics of the enterprise activity.

Taking all of this into account, the expected risk level of outsourcing for the corporate customer (R) can be defined by the following formula:

$$R = \sum_{i=1}^{n} Pi * C\text{в}i \,, \qquad (2)$$

where *Pi* – "*i*" risk probability in the corporate customer activity when using outsourcing, *Cвi* – level of losses that an enterprise may assume if "*i*" risk arises, thous. UAH.

Assessing the effects of risk inherent in outsourcing operations on production and commercial operations of the corporate customer, one should systemize them by the amount of expected losses (see Table 3).

Table 3

Risk level of outsourcing for the corporate customer *

Alignment amount of expected losses of outsourcing risk and threshold risk level	Risk level of outsourcing
R< Thr	Acceptable risk
R = Thr	Critical risk
R> Thr	Catastrophic risk

* – authors' own elaboration

If the expected amount of losses of the corporate customer using outsourcing doesn't exceed the highest possible level, then it is reasonable to perform such an operation.

Assessing risk exposure of outsourcing, an enterprise may find out that the expected level is higher than the threshold risk level or equal to it. In this case corporate customer should make managerial decisions in accordance with the matrix represented in the Table 4.

Table 4

Matrix of making managerial decisions of the corporate customer *

<table>
<tr><th>Expectance of risk / The area of expected losses</th><th>Close to zero</th><th>Low</th><th>Medium</th><th>High</th><th>Close to unity</th></tr>
<tr><td>At the level of profit</td><td colspan="3">Acceptance of risk</td><td colspan="2">Acceptance of risk and the development of appropriate compensation</td></tr>
<tr><td>At the level of income</td><td>Acceptance of risk</td><td colspan="3">Risk allocation and the development of appropriate compensation</td><td>Avoidance of risk</td></tr>
<tr><td>At the level of equity</td><td>Risk allocation and the development of appropriate compensation</td><td colspan="4">Avoidance of risk</td></tr>
</table>

** – authors' own elaboration*

On the basis of this matrix it is possible to identify major risk factors and work out appropriate steps to reduce their detrimental effects on the enterprise. Development of the decision-making matrix for the outsourcing risk management should take onto account the expected amount of losses that the corporate customer may bear in case of any risk-bearing situation, particularly expenses on the profit level, income level and on the level of equity capital.

After risk management strategy has been practically implemented by the corporate customer of outsourcing, it is reasonable to assess real consequences of risk effects on the results of the production and commercial operations, define possibilities and ways to improve the system of compensatory measures formation, aimed to reduce the loss amount and the expected risk level of outsourcing operations.

Conclusion. Risk management of outsourcing operations requires from corporate customers to implement certain decisions associated with identification, assessment and control of risks related to such activity. Planning and implementation of the decision to use outsourcing in economic activity of corporate customer should be based on the determination of threshold risk level an enterprise can assume and its comparison with the expected risk level inherent in the cooperation between customer and outsourcer. Depending on the expected loss amount in case of risk-related situations corporate customer may carry on business and make managerial decisions in accordance with the developed matrix. Peculiarities of risk management in outsourcing are different for each specific case, depending on the type and implementation form, as well as on the resource supply of the enterprise.