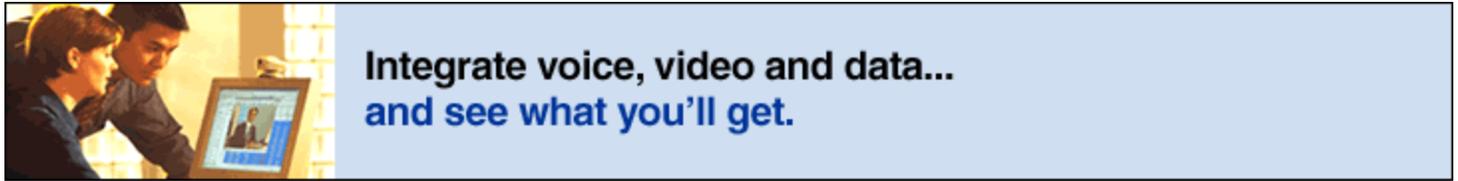


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## Security Risks in Outsourcing: No One in Asia Seems to Care

Advice by Richard Mills

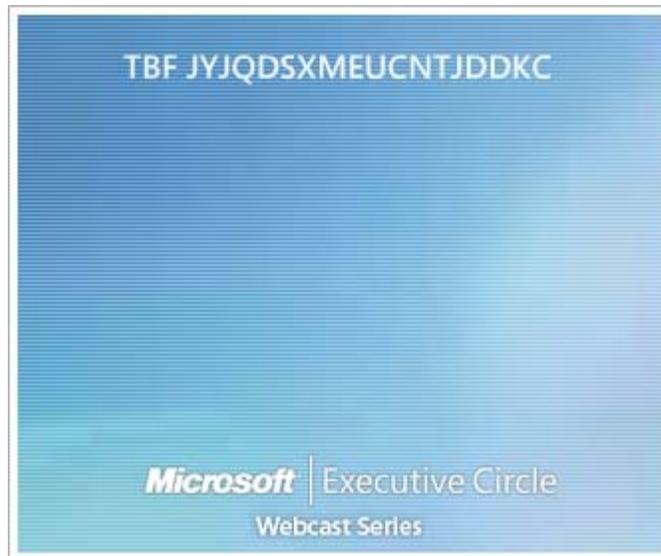
MAY 02, 2005

(COMPUTERWORLD) - Both India and the Philippines are the subject of long-standing travel warnings from various embassies. Some say India is on the verge of nuclear war with Pakistan. In the Philippines, terrorist bomb threats are all too common. Is it any wonder that Gartner Inc. cites security as a "key concern in outsourcing"?

If you look only at the screaming headlines, it's difficult to understand why so many intelligent people are building outsourcing operations in these apparently "unsafe" countries. But if you speak with the people actually leading the operations in Asia, you get quite a different perception of the risks involved.

John Standing is the Manila-based general manager of the IT outsourcing facility for Safeway Inc., a huge U.S. supermarket chain. He says that while there are security risks in the Philippines, they aren't much different from those of any big city anywhere in the world. He believes that with proper security measures, there is little to worry about. It seems to me that this same advice would be appropriate for anyone visiting New York or Washington for the first time.

Shaun Paterson, vice president of operations at the large outsourcing facility of New York-based Thomson Financial, takes a similar view. He feels that the streets of Manila are "safer than those of London" (England is his home country), and he says female friends visiting from Britain feel the same way. As someone with many years of experience in IT and business process outsourcing (BPO) in the



Philippines, Paterson feels qualified to say that security risks are, at most, trivial.

Almost all experienced managers I have spoken to make similar assessments. Some have said that the risk of personal injury is higher while driving a car to the airport for an overseas trip than it is being in the overseas country. One American manager made the point that he can't understand why there aren't travel warnings for the U.S., since there is clearly a greater proven risk of terrorist attacks there. It seems to him that there have never been comparable terrorist attacks in either India or the Philippines.

That all sounds good, but business process outsourcing is still a new concept to many people. Managers wishing to pursue outsourcing programs must spend a lot of time justifying their plans to skeptical department managers who face the loss of their staffs. Security risk is always flaunted as a "key concern" in any outsourcing project: What happens if a bomb destroys our facility and kills our people? Will our senior staff be kidnapped? Aren't these countries very corrupt? On and on.

Another approach to explaining away the issue of country risk is to go back in time to an earlier generation of offshore outsourcing. Let's talk about electronics.

Intel Corp., Philips Electronics NV, Toshiba Corp. and Texas Instruments Inc. are a few examples of electronics companies that have operated billion-dollar facilities for decades in the Philippines. Last year was Intel's 30th anniversary in the country. During that period, the company has seen a tedious parade of armed insurrections, volcanic eruptions, electricity blackouts and corruption scandals. Through all of it, Intel's operations in the Philippines have continued supplying its critical components to the global supply chain without notable interruption.

Semiconductor people consider themselves the old hands of outsourcing and sometimes deride the sudden attention given to the new kids representing BPO. The old hands don't understand why there should be a lot of worry about spending \$5 million to set up a call center; for most of them, that's peanuts. Many have annual maintenance budgets that are larger than that.

A semiconductor facility, they say, requires large buildings to be custom-built, power and water supplies to be upgraded, technical staffers to be trained over the course of years, and so on. A BPO operation offers a lot less to worry about.

For these reasons, semiconductor managers sometimes refer to call centers as "outsourcing lite" or "outsourcing on a diet." Jokes aside, though, they are also full of advice and information for the younger generation of outsourcers.

These old hands say there are really two kinds of country risk to think about, one good and one bad. Country risk that involves the threat of violence against employees or a complete breakdown of law and order (such as what happens in war) is generally felt to be bad. It's reasonable to say that Haiti and Bosnia aren't currently realistic destinations for outsourcing operations for this reason. It's also reasonable to say that the Philippines and India are realistic destinations, since various generations of outsourcers have had successful long-term experiences. Some say India is the higher risk of the two, since it faces possible war with Pakistan -- the two countries have already fought two wars against each other, and now they both have nuclear weapons. But this hasn't stopped India from becoming the king of outsourcing, has it?

Country risk that affects currency values, on the other hand, can often be good for business. The head of one major semiconductor firm said it like this: "If the value of the local currency drops by 15%, then many of my costs also drop by 15%, and I know it sounds bad, but this is good for my business."

With this in mind, countries like the Philippines and, to a lesser extent, India should be good long-term destinations for outsourcing. The Philippine peso has dropped by 40% against the U.S. dollar over just the past five years, much more than the Indian rupee has fallen. So, does this make India a less attractive long-term outsourcing option? The answer isn't completely clear.

But what is completely clear is that security risk isn't much of a concern to the people with experience leading outsourcing facilities in either India or the Philippines. Most leaders feel that the issue is overblown almost to the point of ridiculousness. This view goes for both the current and especially the previous generations of outsourcing managers.

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