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Security risk in outsourcing: No one in Asia seems to care

BOTH INDIA AND 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 Philippines, terrorist bomb threats are all too common. Is it any wonder that Gartner Group cites security as a "key concern in outsourcing?"

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

John Standring is the Manila-based General Manager of the IT outsourcing facility for Safeway, the huge American supermarket chain. He feels that while there are security risks in Philippines, they are not much different from those "of any big city 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 is VP of Operations for the large outsourcing facility of Thomson Financial, the Canadian global financial information powerhouse. He takes a similar view. Shaun feels the streets of Manila are "safer than those of London," England (his home country) — he says female friends visiting from Britain feel the same way. As someone with many years of Philippines experience in IT and Business Process Outsourcing, Shaun 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 US 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 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 staff. 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, Philips, Toshiba and Texas Instruments are a few examples of electronics companies that have operated billion dollar facilities for decades in Philippines. Last year was Intel's 30th year anniversary in the country. During that period, the company has seen a tedious parade of armed insurrections, volcanic eruptions, electricity black-outs and corruption scandals. Through all of it, they have continued supplying their critical components to the global supply chain without notable interruption.

Semiconductor people consider themselves the "old-hands" of outsourcing and sometimes express derision at the sudden attention given to the "new-kids" of the concept, namely Business Process Outsourcing. The old-hands don't understand why there is so much worry about spending $5M to setup a call center when for most of them this is "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, training technical staff can take years, and so on. A BPO operation, by comparison, has 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 2 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 (as what happens in war) is generally felt to be bad. It is reasonable to say that Haiti and Bosnia are not currently realistic destinations for outsourcing operations for this reason. It is also reasonable to say that Philippines and India are realistic destinations since various generations of outsourcers have had successful long-term experience. Some say India is the higher risk of the 2 since it faces possible war with Pakistan – they've already fought 2 wars together and this time 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 Philippines and India (less so) should be good long-term destinations for outsourcing. The Philippine peso has dropped by 40% to the US dollar over just the past 5 years while the Indian rupee has not fallen to the same degree. So, does this make India a less attractive long term outsourcing option? The answer is not completely clear.

But what is completely clear is that Security Risk is not much concern to the people with experience leading outsourcing facilities in either India or Philippines. Most leaders feel the issue is over-blown almost to the point of ridiculousness. This view goes for both the current and especially the previous generations of outsourcing managers.