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*White Paper*

# **Are You Concerned With Security in Your Offshore Outsourcing Operations?**

An Assessment of Non-Financial  
Factors in Offshore Sourcing

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# Are You Concerned With Security in Your Offshore Outsourcing Operations?

## *Alsbridge Country Assessment and the Risk of Operations*

Historically, executives have moved technology and business process work [offshore](#) with a goal of controlling cost. This [tsunami](#) has grown over the last few years with a wider range of country locations being considered ranging from A to Z, from Australia to Zimbabwe.

**With the recent tragic events in Mumbai, a flare up in the Philippines and possible changes in China, a rigorous assessment of a “correct location” prior to signing a contract has become more important.**

Each location clearly has unique issues that in many ways help fuel the lower cost basis of that country. Greater stability normally has greater cost, with the correlation holding true as instability increases. Seemingly, the choices were easier just a short while ago when the real as well as the perceived security risks of a number of locations were consistent. With the recent tragic events in Mumbai, a flare up in the Philippines and possible changes in China, a rigorous assessment of a “correct location” prior to signing a contract has become more important.

India was clearly the cheapest location with the best risk adjusted cost of getting work done. India remains the largest lowest cost choice. But are there other options? How do the other locations compare to India? What are your options as an executive? These are good questions to evaluate..

### **Your Options on Where to Locate are Evolving**

Each decision should be made based on a total evaluation unique to your specific business and risk profile. The following is an overview of a select group of countries that could be considered in choosing a location for your back office activities either to an outsourced provider or for your own [captive](#) support center. Each location is presented in summary and no decision should be based on this information alone.

## Argentina

### Economic Environment

Although Argentina made a rapid recovery from a 2002 debt default and the preceding economic crisis, the country has begun to encounter economic troubles once again. Rooted in the government's populist policies, the country's economic situation is characterized by stringent government price controls of basic goods. These policies aid the government in maintaining popular support, although they have the effect of crippling some industrial and agricultural production.

As a result, Argentina will likely see serious declines in growth over the coming years. Government price controls on natural gas have encouraged a high rate of consumption of the resource that has outpaced production and led to an energy crisis. With 45 percent of the country's electricity mix dependent on natural gas, the electricity supply is vulnerable to shortages.

### Political Stability

Political demonstrations are a part of everyday life in Argentina. Protests are typically against government actions or in favor of government redress for certain social or political grievances. Although the demonstrations are nearly always nonviolent, and protesters usually respect the rules established by police, political protests can cause severe disruptions of businesses and transportation networks in urban areas.

Government regulations are changing rapidly at the moment, and the nontransparent nature of Argentine President Cristina Fernandez de Kirchner's administration makes it difficult to predict the direction of changes -- although there is certainly a trend toward a heavier government hand in the economy.

**Argentina is an emerging location for India-based and U.S.-based outsourcing firms that are acquiring or starting operations to provide time zone proximity to North American clients.**

### Terrorism and Insurrection

While there has been some militant activity in Argentina over the years, it is not likely to have a significant impact on foreign business operations in the country. The Buenos Aires' Jewish community was targeted in two bombings carried out by members of Hezbollah in the 1990s. Any subsequent bombings are likely to be carried out against Argentine government officials and citizens who are Jewish and not against U.S. businesspeople or interests.

### Labor Unrest

About 30 percent of Argentina's workforce is unionized. Unions are strong in Argentina and often use their heft to pressure the government to take a stronger role in industry. Strikes occur occasionally but with vigor. Strikes in the agricultural sector during 2008 were successful in paralyzing the country on and off for months and provoking changes in government policies. Labor unrest and deterioration in the company's balance sheet pushed the Argentine government to nationalize the country's national airline, Aerolineas Argentinas.

### **Crime**

Most crime in Argentina -- especially in the urban areas of Buenos Aires and Cordoba -- is nonviolent. There are some reports of armed assaults and kidnapping attempts that have turned violent, although these incidents are rare. The most common type of nonviolent crime is petty theft, usually pick pocketing and bag snatching. Kidnapping for ransom and express kidnapping can also be problems in urban areas, especially in Buenos Aires.

### **Outsourcing and Shared Services Operations**

Argentina is an emerging location for India-based and U.S.-based outsourcing firms that are acquiring or starting operations to provide time zone proximity to North American clients. Argentina produces about 10,000 college graduates a year. Currency value and exchange rate risk is considerable with Argentina. Near term, it appears that it will favor the U.S. buyer. The overall English-speaking labor pool that can provide technology or business process outsourcing is comparatively smaller than other locations, but the quality and [cultural](#) linkages with North America make it worth considering as part of a multi-location sourcing decision.

## Brazil

### Economic Environment

[Brazil](#) has a stable and growing economy supported by a government committed to reasonable fiscal and monetary practices. Although inflation, high taxes and persistent inequalities are challenges the government faces, Brazil is in a better economic position than many of its neighbors. Fears of inflation have long prevented the government from encouraging high-growth levels.

**Although Brazil does not discriminate against foreign investors, the tax system is complicated and onerous for all companies.**

Although Brazil does not discriminate against foreign investors, the tax system is complicated and onerous for all companies. Labor laws are very detailed, and a system of labor courts regulates relations between employer and employee. The courts are quite backlogged, however, and complaints can take years to make their way through the system.

### Political Stability

The government of Brazilian President Luiz Inacio “Lula” da Silva is very popular and recently made significant strides in a local-level election. The election is a good indication that popular sentiment may support da Silva’s Workers’ Party in the 2010 presidential elections, by which time da Silva will be termed out. This a good sign for continued stability in government policies. Challenges will arise in the near term as the government struggles to react to the global financial crisis.

An ongoing Brazilian political challenge is how to effectively deal with environmental issues. The deforestation of the Amazon and related problems are a major concern for both governmental and nongovernmental interests.

### Terrorism and Insurrection

There are no known terrorist or insurgent groups in Brazil’s industrial centers. That said, Brazil’s western and northern borders are largely uncontrolled, and militant groups operating out of Colombia likely have a presence there.

### Labor Unrest

About 20 percent of Brazil’s labor force is unionized. However, because unions are required to represent nonunionized workers in similar industries, unions have the potential to represent up to 40 percent of the workforce in collective bargaining. Unions are well organized and can be very aggressive in pursuing wage adjustments. Strikes are frequent.

### Crime

The crime rate is extremely high in Brazil, with robbery and express kidnapping common in major urban areas and organized criminal groups active throughout the country. Even in rural areas, travelers should exercise caution and maintain situational awareness at all times.

### **Outsourcing and Shared Services**

Brazil has similar characteristics to other locations in the southern Americas. Because it has the largest population and economy, it has the greatest opportunity to become a prime location. Brazil produces about 70,000 college graduates and a viable educated labor pool that is growing. India and U.S.-based service providers are moving into the region, and there is an emerging set of Brazilian-grown providers that can compete for tactical projects with the global providers. Brazil, like Argentina, should be considered in a multi-country sourcing decision.

## India

### **Economic Environment**

Although India has boasted impressive growth rates in GDP in recent years (8 percent to 9 percent), with [IT](#) revenues making up about 5.5 percent of government revenues, the country's economic future is no longer as bright as it once promised. A combination of rampant corruption, bloated bureaucracy, clogged infrastructure and uneven regulatory practices have already taken much of the shine off the "Shining India" model. Compounding matters is the global financial contagion stemming from the U.S. subprime crisis. While India's banking sector is largely immunized from this threat, India will likely see a drop in exports, capital inflows and foreign direct investment in the medium term as mostly Western companies are forced to cut back on their overseas operations. Many of the tax incentives given to information technology companies in the past will expire in 2009.

### **Political Stability**

With general elections slated for May 2009, the Indian political campaigning season is already underway. The central government, led by the Congress party, is fighting an uphill battle to stay in power because of a slowdown in economic growth, its policies on terrorism and its attempts to expand special economic zones for foreign investors, among other issues.

### **Terrorism and Insurrection**

We are all aware of the recent shocking attacks in Mumbai, but the impact of these attacks has yet to be determined. Readers of this report should subscribe to reporting services such as those provided by [www.Stratfor.com](http://www.Stratfor.com) and [www.outsourcingleadership.com](http://www.outsourcingleadership.com) to evaluate their options.

### **Labor Unrest**

Labor unions are linked to political parties and can influence both state and national regulatory policies. Workers in manufacturing, transportation, health care, education, telecommunications and other economic sectors generally follow through on strike threats. Labor unions also tend to participate in strikes organized by political parties when a particular government policy affects their industry. Strikes staged by transport companies can easily paralyze business operations and prevent employees from commuting to work. Unionization in the IT industry is relatively new but has spread widely in the communist-controlled state of West Bengal.

### **Crime**

As a result of political corruption, crime statistics are unreliable, and the government constantly underplays the threat. Although

major cities have high, and rising, crime rates, most crime targeting foreigners is petty. The rate of violent crime, generally committed by organized crime syndicates, is particularly high in Mumbai and New Delhi, but it is primarily entrenched in the film and real estate industries.

#### **Miscellaneous Threats**

Industrial espionage by corporate spies in India is focused primarily in the IT sector. Electronic eavesdropping is also widely practiced in India. Most known cases of industrial espionage involve insiders downloading source codes and other proprietary business information. Foreign businesses that partner with Indian firms are at risk if they do not have full control over the vetting and hiring process. MNCs are also vulnerable when their Indian partners outsource tasks to third-party contractors, further reducing the company's ability to control and protect information.

#### **Outsourcing and Shared Services Operations**

India is a vast country with diverse location choices that have very different threat levels. Globally, India produces more English-speaking college graduates than the U.S., UK and Australia combined. It also has what we at Alsbridge call an export birth rate that almost predetermines that their talented labor will look outside India for employment or sign on with India-based outsourced providers. This supply of labor at effective costs has no end horizon. Currency and buying power of U.S. providers has increased of late with the rupee dropping to nearly 50-1 in November. For risk management and operational reasons, most providers in India have numerous locations across India and operations in Eastern Europe and in the Americas that provide backup and continuity of service. This backup is not free and clients need to be careful to ensure that their services are given priority and at what cost. Despite recent events, it is expected that information technology and business process work will continue to move to various locations in India.

## Philippines

### Economic Environment

The generally strong economic growth in the Philippines, averaging 5 percent yearly, has slowed because of commodity inflation and the global financial crisis, and the country's trade balance recently fell deep into the red. The leading political parties generally push for liberalizing reforms to draw more foreign investment, although usually with heavy regional biases. Foreign investment still faces a number of official and unofficial barriers, including corruption, erratic regulatory practices and a lack of protection for intellectual property rights. The highly corrupt business atmosphere leads to hidden costs that diminish returns on investment.

Nevertheless, the Philippines remain a leading host for global companies looking to outsource certain functions, and the government avidly promotes the Philippines as an outsourcing venue. The Philippines is also a regional leader for growth in the IT sector; expenditures in the sector are expected to increase, although competition from [China](#) and shortages of qualified and affordable labor has prevented Manila, the country's capital, from progressing very rapidly. Inadequate educational institutions are a major reason for labor shortages in the IT industry. Internationally, the Philippines participates in the World Trade Organization, the Association of Southeast Asian Nations and bilateral free-trade agreements.

### Political Stability

The Philippines has an unstable political scene, with high levels of corruption and the constant threat of military coups (most recently attempted in December 2007, but rumors and arrests related to plots are ever present). Political subgroups in Manila are strongly linked to bases of support, whether in the business community or the military or in popular movements, and this can interfere with the transparent practice of governance..

### Terrorism and Insurrection

The Philippines also hosts a wide array of militant groups that are active in different regions, mainly in the south in Mindanao and the Sulu coastal areas. Attacks are usually limited to southern islands and to Manila where government buildings are sometimes targeted. Remnants of communist groups exist in the central regions. Companies operating in urban areas are not likely to experience terrorism or insurrection, but those that set up shop in the wrong neighborhood will be subject to making payoffs.

### Labor Unrest

The Philippines has a record of being difficult territory for labor groups, and the murder of a number of union leaders since 2001 has led the United States to reconsider some of its trade policies toward the country. Labor movements are thought to be

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increasing, especially in opposition to international companies conducting mining and other extractive operations. Agricultural and transport unions held strikes during summer when inflation levels were high.

### **Crime**

Street crime, assault, robbery and kidnapping (usually, although not always, for ransom) occur frequently. Serious crimes (murder, rape, robbery, theft) make up 55 percent of the total. Sometimes the victims of kidnapping are foreigners, including Americans and Canadians, and they are most often consultants, humanitarian aid workers, journalists, miners and workers related to mining operations. Civilians, police officers, public employees and private security personnel are also targeted. Nevertheless, crime rates are said to have fallen by nearly 3 percent in 2008.

### **Miscellaneous Threats**

The threat level posed by the weather is high during typhoon season (June to October) in the Philippines. Numerous typhoons strike each summer and often leave a death toll in the hundreds.

### **Outsourcing and Shared Services Operations**

The Philippines has historically been a strong number two location choice for clients seeking low-cost college graduates to perform high end information technology and business process work. The Philippines produces about 400,000 English-speaking college graduates a year, which is more than the UK and Australia combined.

## Poland

### Economic Environment

Poland is a European Union member state and, as such, has a favorable climate for economic investment. The current government in power, led by the Prime Minister Donald Tusk, is staffed by Western-educated technocrats and is open to foreign investment. Corporate income tax was cut to 19 percent in January 2005, and salaries are generally low. Intellectual property rights are protected, although piracy still occurs.

**The Polish population is one of the most IT-savvy populations in Europe. Thirty-five percent of Poles are under 25 and 60 percent are under 40. English is widely spoken by college graduates and Poland has the highest level of “basic” IT skills of any European country**

The most important regulations for foreign investment are the Law on Freedom of Economic Activity of 2004 and the Commercial Companies Code of January 2001. The two have reduced the amount of red tape and have simplified rules for investing in Poland. However, bureaucratic red tape still exists, as it does in much of the rest of Europe, particularly when it comes to laws covering labor practices, health, the environment and taxation. One should also be wary of the Polish commercial court system and its high level of corruption (compared to Poland’s Western European neighbors). The Polish Chamber of Information Technology and Telecommunication, established in 1993, lobbies the government to promote the IT industry.

The Polish population is one of the most IT-savvy populations in Europe. Thirty-five percent of Poles are under 25 and 60 percent are under 40. English is widely spoken by college graduates -- although not the general population -- and Poland has the highest level of “basic” IT skills of any European country (80 percent of the population). Information and communications technology accounts for 5.9 percent of Poland’s total GDP.

### Political Stability

Poland is a stable EU member state whose democratic institutions are not at risk. The competition between President Lech Kaczynski and Prime Minister Donald Tusk (and their respective parties) can at times be visceral and intense but it remains within the bounds of democratic competition. Russia has a keen interest in Poland to maintain its historical barrier to the west. This interest is historical and not related to contemporary events. The recent U.S. decision to locate its anti-ballistic missile shield in Poland targeting westward missile operations put counter pressure on the domestic politics. On the surface all is stable. But there is significant pressure from many directions.

### Terrorism and Insurrection

As a staunch ally of the United States, Poland has participated in the wars in Iraq and Afghanistan. However, there has not been any backlash from Islamist terrorists in Poland, and the domestic Muslim population is negligible.

**Russian intelligence operatives are very active in Central Europe -- looking especially to procure foreign technology -- a threat that could be very relevant for IT businesses wanting to outsource to Poland.**

### **Labor Unrest**

Poland has a rich history of labor involvement, particularly the Solidarity movement that was so influential during the 1980s and 1990s. More recently, labor activity has decreased, and although strikes still occur, they are rare in more modern sectors of the economy such as IT. Approximately 14 percent of the workforce is unionized, and these workers are usually found in the heavy industries such as shipping.

### **Crime**

Like much of Central Europe, Poland has recently seen a dramatic rise in neo-Nazi and skinhead violence. These groups may target foreigners, although they generally engage only in verbal abuse. The presence of organized crime syndicates is notable but nowhere near as serious as it is in Russia and the Balkans.

### **Miscellaneous Threats**

Poland sits on a historical geographic gateway to the west. This doorway swings both ways and as such is of interest. Russian intelligence operatives are very active in Central Europe -- looking especially to procure foreign technology -- a threat that could be very relevant for IT businesses wanting to outsource to Poland.

### **Outsourcing and Shared Services Operations**

Culturally, Poland will feel the most like "home" for many westerners. Weather, dress and habits are familiar, and there are many cultural ties that make a visit similar to many northern U.S. cities such as Chicago. Poland is a careful choice for different reasons. While the labor pool is talented, it is relatively small compared to India, the Philippines and China. You can run out of talent quickly if you oversaturate familiar heavily sourced cities in Poland. With that said, Poland is an emerging option for a multinational corporation that has a need for a variety of languages and a different location risk.

## Russia

**Obstacles include arbitrary and onerous taxation, poor legal protection, limited access to commercial space, cumbersome registration procedures and excessive inspections by state agencies, corruption and bureaucratic harassment by regional and local authorities**

**Russia as a location would be appropriate to support local operations and to begin to establish operations in the country as part of a larger business plan**

### **Economic Environment**

Economic growth in Russia has been centered on the energy sector and brought about by high global energy prices. Anyone wishing to conduct business in Russia must frequently navigate mazes of red tape and occasionally present officials with “gifts” while trying not to interfere with any of the Russian government’s business interests. Although many foreign businesses continue to work in Russia, there is always a risk that the Kremlin -- or even regional or local governments -- will move swiftly against them. Foreign flight of capital and investment has been increasing since the August 2008 Russian war with Georgia.

The political and regulatory environment in Russia is restrictive and convoluted. A number of laws contradict each other and it is up to the central, regional or local government to decide which ones to enforce. Labor shortages, government corruption, limited access to finance and the localization of business-minded Russians (St. Petersburg and Moscow are the country’s business hubs) are other obstacles that foreign businesses must overcome. .

### **Terrorism and Insurrection**

Terrorism and insurrection by groups in the Caucasus has spread from there to other Russian regions, with numerous attacks in Russian cities in the Caucasus. Insurgents rarely target businesses, but attacks against Western companies by far-right Russian nationalists have been rising since 2005.

### **Labor Unrest**

The Federation of Independent Trade Unions has taken over the membership and property of its Soviet predecessor, but individual unions or their federations have little control over government policy. The labor code of 2002 further diluted union influence and empowered the government.

### **Crime**

Crime is rampant at all levels of Russian society and it ranges from some of the most advanced organized crime operations in the world to petty street crimes by individuals. Organized crime is endemic and has infiltrated the business establishment and the government, with bureaucrats and sometimes even government ministers actively collaborating out of fear or choice.

### **Outsourced and Shared Service Operations**

Russia has, in summary, a larger group of problems that bear careful consideration (no pun intended). The English-speaking college graduate population is small, and it is part of a deficient labor pool based on low birth rates. As such, most talented college graduates tend to work inside the businesses that focus on Russia alone, or in some cases, emigrate. Russia as a location would be appropriate to support local operations and to begin to establish operations in the country as part of a larger business plan.

### **In Summary**

Alsbridge has advised companies that making any decision to choose a country or provider should be careful and measured. [Engaging a consultant](#) and establishing that you wish to evaluate the current total risk profile is important. Each evaluation is unique to your own profile and future plans. Choose carefully and establish the right offshore [support](#) network for you and your company.

### **About the Material in this Paper**

The research for this paper was conducted exclusively for [Alsbridge, Inc.](#) in October and November 2008 by [Stratfor](#), the world's leading online publisher of geopolitical intelligence. Supporting materials in the paper were researched and authored by [Outsourcing Leadership](#) and sponsored by Alsbridge. The material is intended for the use of its recipient and may not be reproduced in whole or in part or redistributed without permission of the copyright holder, Alsbridge, Inc. Contact Alsbridge at 214-696-6410 for requests to redistribute or republish.

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