

# Outsourcing: recession-proof or vulnerable?

In October 2007, a EquaTerra concluded that its survey results showed that there was increasing demand for IT and business process outsourcing, and that this was developing, in particular, in vertical markets such as financial services despite challenges in that sector. The company concluded that wage inflation in cheaper economies and a weak US dollar reduced the attraction of some outsourcing but even so the sector was "recession-proof."

The relevant page at Eqaterra's website was producing a "page not found" error when we tried to locate it today, but thanks to the cache at Google.Com, we were able to read the original announcement made by the company.

This is extracted from the Company's statement:

*Outsourcing Becoming a Recession-Proof Business Tool for Financial Services and Other Industries: There was a consensus between EquaTerra advisors and service providers polled that recent turmoil in the financial services industry could slow some outsourcing efforts in the short-term, and continue to negatively impact some providers. Longer term, however, the expectation is that outsourcing in this industry will grow as buyers seek to reduce operating costs, avoid investments into new systems and capabilities, shift focus to more strategic activities, and leverage their growing supply of skilled global resources. This trend in financial services illustrates that outsourcing as an industry has become "recession-proof", and that outsourcing is a tool buyers use in up markets to improve performance and in down markets to reduce costs and remain competitive.*

By the middle of December 2008, the situation was not so certain, demonstrating not that the company got it wrong in 2007, but that predictions are dangerous (unless you are an economist and can claim "other things being equal.").

In fact, financial services businesses began to unwind outsourcing - driven in part by regulatory dictats that the outsourced services must meet lead-regulator compliance. And the decision in the UK that a bank had provided its outsourced back office with such ridiculously simple questions that, in the hands of remote and relatively unsupervised staff (a disturbing finding) there would be a high risk of customer data falling into the wrong hands.

And that is before the current crisis in the financial market starts a shake-out of foreign and contract staff - always the first to go in any large-scale cutbacks as no one likes cutting home jobs

if there are any overseas that can be dumped first.

So where is outsourcing now?

Malaysia is seeing a significant number of foreign corporations making redundancies amongst local staff, whilst still keeping facilities open. Ironically, organisations such as HSBC which have offshored rather than outsourced much of their back-office to India and Malaysia may well find that these units are under pressure for growth, as more inbound calls come from worried customers. So, with a slight tweak, it is probable that at least some of EquaTerra's 2007 views remain valid.