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## ► OUTSOURCING IN 2007 — THE YEAR THE BUBBLE BURSTS?

The 'irrational exuberance' associated with offshore outsourcing continued last year, as international companies intent on achieving profitability through cost reductions shifted operations to India, China, and a host of other emerging contenders supplying low-cost labour and facilities. The question now is, "Will 2007 be the year the outsourcing bubble bursts?"

Growing concern (and internal staff) associated with companies' compliance and disaster recovery means that companies will be taking another look (at a higher management level within the company) at the increasing number of dependencies that they are creating through outsourcing (any one of which could be fatal to business continuity).

Deals for outsourcing business-critical technology infrastructure in India have increasingly accommodated the episodic disasters that are typically included within corporate disaster

recovery plans. But new concerns are surfacing about India's unique infrastructure issues over the timelines required for internationals to fully recoup the transaction costs associated with such outsourcing. Circumstances such as India's looming water crisis may trigger the tipping point in fostering perceptions of vulnerability that could effect future decisions of internationals in creating/maintaining operational dependencies there. Continuing concerns about political stability in a region that includes two nuclear states may also create the type of uncertainties that not only result in business interruptions, but also drive rumour-driven, emotional sell-offs of equity positions in companies operationally invested in the region.

Increased outsourcing of manufacturing and dependencies related to the supply of commodities from China will continue during 2007. But as more competitors engage in outsourcing the same processes and contracting for the same type of commodities, concerns could develop next year over supply-chain disruptions that might disproportionately affect some companies. Additionally, escalating risks in China that have no actuarial basis may also begin to surface in 2007 (for example, risks related to the perception of increasing environmental disasters on a scale unique to China's population

and rate of industrialisation).

Informational dependencies that have traditionally been 'hidden capital' within a company's business operations may also begin to surface in 2007. Companies are beginning to acknowledge that outsourcing can lead to a loss of business-critical anecdotal communication that is embedded within the corporate culture. In 2007, internationals will begin to look at outsourcing in terms of its effects on such informal communication and management structures (and may draw upon social networking studies in making outsourcing decisions).

Will outsourcing continue in 2007 at the same pace as 2006? Probably. But internationals will have increasing concerns that unanticipated risk exposures can be created when business-critical operations go offshore (which concerns may shift the cost/benefit analysis that has driven the outsourcing phenomenon over the last few years from the operations staff to the compliance officers and senior management responsible for business continuity planning). ■

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