



## Gartner Says Organizations Must Review Outsourcing Arrangements to Mitigate Geopolitical Risk

Fears of geopolitical instability may impact the global offshore services market, as sourcing, procurement and vendor management executives review their options to mitigate risk, according to Gartner, Inc. The offshore outsourcing market has been relatively stable in recent years, with organizations using a mix of onshore, nearshore and offshore resources with relatively stable demand and supply patterns. However, recent events like the Sri Lankan terrorist attacks, the U.S.-China trade dispute and political tensions in Hong Kong are raising fears of delivery disruptions. “Political and economic stability is an important factor in offshore outsourcing arrangements,” said Jim Longwood, research vice president at Gartner. “Gartner has started fielding more questions from clients about how to address these scenarios. This includes whether to stop sourcing services from a particular country, move services to another country or bring them back onshore. Each option is quite costly and can disrupt service delivery in the short-to-medium term.” For example, Gartner estimates that China exports around \$10 billion of IT application and business process services, primarily to North America, Western Europe, Asia/Pacific and Japan. Indian outsourcing firms generated more than \$45 billion in global services in 2018. “How the trade talks progress may hinder China’s ability to deliver IT services,” said Mr. Longwood. “Concerns include potential disruption to or cessation of services, increased tax added to export labor rates and reduced quality of service due to ‘patriotic’ backlashes by local staff. However, instability is not limited to the U.S./China situation. All organizations should review their offshoring and nearshoring arrangements.” Gartner predicts that by 2023, 65% of larger enterprises using captive offshore or nearshore service delivery centers will have adopted a multicountry sourcing strategy for these services. Undertake proactive risk management to address geopolitical events Organizations typically follow a sound risk management process as part of their due diligence when they first select a vendor and/or country for the delivery of services, but often don’t continue it. Organizations should monitor industry press, government trade sites, country/embassy immigration sites and feedback from sites for signs of impending problems. Split risks across multiple countries Gartner recommends that organizations build a roadmap to split risks across multiple countries and/or onshore low-cost centers, including automation of service delivery. Through 2022, Gartner believes the potential for further geopolitical disruptions will accelerate uptake of intelligent automation of managed services by more than 25% and will spur movement of these services onshore to mature country locations. Organizations should proactively assess their key in-country risks and short-term options for anticipated scenarios by identifying key signposts when significant action will be required. Create contingency plans When using a large regional or global delivery provider to deliver services only from that country, contingency plans often do not adequately assess geopolitical instability scenarios, or contingency plans need updating. Gartner recommends proactively addressing these scenarios with the incumbent provider. “Although you can’t control a sudden cessation for service delivery due to unexpected events, you can be prepared for it,” said Mr. Longwood. “Check with service providers to determine what disaster recovery programs they have in place for clients, and work with them to create a viable business continuity plan.” Gartner clients can learn more in the report “Mitigate Offshore and Nearshore Service Delivery Location Risks Created by Geopolitical Instability.”

### Contacts

Emma Keen

mailto:

Susan Moore

+61 2 9459 4692

mailto: susan.moore@gartner.com