



Paul Morris/Grant Ringshaw

A passage to India and beyond

In the past few years, dozens of leading companies have transferred swathes of back-office and white collar jobs to Asia and Africa. Offshoring has saved billions in costs for companies and led to explosive growth in some developing countries. But, as Paul Morris of ISIS explains, the implications of this trend are complex.

Q: Offshoring has seen phenomenal growth in recent years, but just how good are the services?

A: In the past few years, overseas offshoring suppliers have built capacity, but not just that – quality has improved. It is more than anecdotal. A recent survey by outsourcing advisory group TPI revealed that just 4% of companies were dissatisfied with their outsourcing supplier. There is clear evidence that people are genuinely happy, irrespective of the cost savings. Four or five years ago, companies were focused on cost benefits and less on the quality of service. But things have moved on.

Q: Surely governments must be concerned about jobs going overseas? Is there a threat of a backlash against offshoring?

A: In the US, there is a great sense of protectionism, but the UK is much more pragmatic. The Department of Trade and Industry has effectively said that offshoring is not all bad and that the UK should be wary of becoming protectionist. The commonsense view is that by encouraging emerging economies, more wealth is created there – and that could benefit trade for the UK. The current UK government position appears to be neutral, but there is a general belief that offshoring could actually benefit British companies' competitiveness, leading to good things for the overall economy. The CBI has suggested that, overall, the advantages could outweigh the disadvantages.

Q: So far, India and South Africa have been the main beneficiaries of offshoring. Which other countries could emerge as alternative providers?

A: Eastern Europe – specifically Hungary, Poland and the Czech Republic are all winning more business. There has always been a concern that outsourcing business services to India or the Far East means they are out of sight and out of mind. The advantage of somewhere like Poland is its proximity - executives can easily visit their partner companies. There has been a lot of noise about China's prospects. On the surface the statistics look compelling: it has an 82% literacy rate and average wages are 40 to 50% lower than India. However, there are two big barriers. One is that the Chinese way of doing business is driven by committees and can be very bureaucratic. The other factor is language. UK consumers

complain about speaking to people at a call centre with an Indian accent – can you imagine the problems with Chinese?

Q: What are the risks for companies that choose to switch jobs and business services offshore?

A: The big issues are security and the potential threat to a company's brand. A spate of recent bad news stories – including misappropriation of funds at a major US bank and revelations that an Indian call centre worker was prepared to sell people's current account details – have not helped. The Financial Services Authority has also warned that offshoring could pose a "material risk" to its aim of cutting financial crime and protecting consumers. Major British companies such as Royal Bank of Scotland, Co-operative Bank, and Legal & General have made it their policy not to switch jobs overseas, while others like HSBC and Lloyds TSB have been very active. Clearly there are some major concerns – a survey by YouGov in 2004 revealed that only 5% of people were happy to have their bank account serviced by a call centre based offshore. When you are faced with such sentiments you have to listen.

Q: How are companies that switch jobs offshore changing their demands? Are they becoming more sophisticated about measuring success?

A: There is now much more of a focus on quality of service and not just cost reduction. The increasing trend is for companies to use more sophisticated methods of measuring, such as customer satisfaction surveys. Companies have become much more conscious of the potential for negative publicity. Another trend, especially in the telecoms and mobile phone sector, is that companies are using offshoring contracts as a way of establishing a foothold in a new market. One approach has been to look at setting up captive or subsidiary companies run by management seconded from head office or setting up a joint venture with a local partner. The smarter companies have moved well beyond the cost reduction legacy and realise they have a chance to build additional services.

Q: Will offshoring continue to grow as rapidly?

A: A recent survey by TPI found that four out of five large UK companies planned to increase their use of offshoring in the next three years, while just 4% planned to scale back. There is definitely a continued push. I believe growth will come from three areas: new companies entering offshoring for the first time to make tactical cost gains; companies that have already dipped a toe in the water and have decided they need greater penetration of their existing business; and companies that are already committed to offshoring, but are moving into more sophisticated areas such as customer relationship management. For every Co-operative Bank that says no, there are 10 more that will say yes.