



Off-shoring

A joint policy paper by:

- **Finance Sector Union of Australia**
- **Australian Services Union**
- **Communications, Electrical and Plumbing Union
(Communications Division)**
- **Community and Public Sector Union**

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Introduction

There has been an increasing global trend for companies to relocate various parts of their operations to locations outside the country where the service is being delivered. This practice is often referred to as 'off-shoring'. The terms 'off-shoring' and 'outsourcing' are sometimes used interchangeably, however it should be noted that they are two separate and distinct concepts.

'Outsourcing' refers to the practice of contracting out certain functions of a business to an external provider (which may be located domestically or overseas). 'Off-shoring' refers to jobs/processes being moved overseas. In many cases the jobs/processes may remain within the same global company – this is sometimes referred to as 'captive off-shoring'.

Financial services, communications, IT and other service industries have been those most affected by off-shoring and it is widely expected and predicted that the off-shoring trend will continue to accelerate (UNCTAD 2004).

Indeed, off-shoring is a big business. It is estimated that the global market for outsourced IT and business process services was over US\$322 billion in 2003 and US \$45 billion for off-shoring in the same industries (WTO 2005).

The OECD recently predicted that close to 20% of all work performed in Australia could potentially be off-shored (OECD 2005). **This would equate to almost 2 million jobs.**

The table in *Attachment A* shows the effect that OECD projections could have on specific Australian industries. *Attachment B* shows the number of jobs that have already been off-shored in some in some areas.

The issue is of significant concern for the unions involved in this paper¹ in terms of jobs, industry development and consumer protection. The trend also raises issues around basic standards for workers in developing countries.

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- ¹ The Australian Services Union represents the interests of around 140,000 members who work in local government, energy, water, public transport, rail, airlines, shipping, travel, ports, social and community services, information technology, call centres and private sector clerical and administrative employment. See <http://www.asu.asn.au/> for more information.
 - The Communications, Electrical and Plumbing Union has a diverse membership and spans several industries. It is the largest union in the communications industry, with members in both private and public telecommunications and postal sectors. See <http://www.cepu.asn.au> for more information. This paper has been endorsed by the Communications Division of the CEPU.
 - The Community and Public Sector Union (PSU Group) represents over 60,000 members in the Commonwealth public sector, telecommunications, IT, call centres, employment services, commercial broadcasting, the aviation industry and science. See www.cpsu.org.au for more information.
 - The FSU represents the interests of 60,000 members employed across all areas of the finance sector, including the banking sector, insurance and superannuation. See <http://www.fsunion.org.au/> for more information.

This paper consists of the following sections:

- Why is off-shoring happening?
- What does off-shoring mean for consumers?
- What does off-shoring mean for affected workers?
- What does off-shoring mean for countries that receive the jobs?
- Where to from here?
- Summary of recommendations

1. Why is off-shoring happening?

The recent OECD paper used the following criteria to identify the types of functions and activities that could potentially be carried out anywhere in the world and consequently could be ‘off-shored’.

1. Jobs that make intensive use of Information Communication Technologies (ICT) in order to produce their output;
2. Jobs whose output can be traded/transmitted with the help of ICTs;
3. Work which has a high explicit information or “codified knowledge” content (and no or little tacit or implicit knowledge).
4. Work which does not necessarily require face-to-face contact. (OECD 2005).

Not surprisingly some of the main types of work that are being ‘off-shored’ are call centre operations and back office processes for a wide range of industries.

The main drivers for ‘off-shoring’ are generally cost reduction and labour availability with estimates that labour costs in countries such as India can be as much as 70-80% cheaper than in the US or UK (Taylor & Bain 2004; UNCTAD 2004). Often the ‘destination’ countries for off-shore jobs have high unemployment (Ofreneo 2004), and do not have unionised workforces which may be linked to the extremely low labour costs that exist in those countries.

Arguments for off-shoring are almost always presented in economic terms, however there may be hidden costs and qualitative issues that are not always considered (these are discussed in the following sections).

The unions involved in this paper are all members of Union Network International (UNI)² and strongly support the *UNI Charter on Offshore Outsourcing*.³ The charter calls for early consultation and negotiation with unions on off-shoring projects, the introduction of appropriate consumer protection measures and the development of global agreements to ensure decent employment standards in the receiving countries.

² Union Network International (UNI) represents 15 million members in 150 countries in more than 900 unions worldwide. An overwhelming number of UNI members are in IT and services jobs.

³ See <http://www.union-network.org> for more information and copies of the charter.

2. What does off-shoring mean for consumers?

The 'right to know' and data security are two major issues that may arise for consumers.

'Right to know'

In Australia there is currently no requirement for companies to disclose whether services are being provided or if personal data is being held off-shore. Indeed, many consumers may not be aware they are speaking to an operator in a different country. Surveys in the UK found that the majority of customers felt that companies should tell them if they are providing customer service from an off-shore location (Contactbabel 2004). A logical comparison is labelling laws for various products where companies must state the 'country of origin' so that consumers can make an informed decision.

The principle of relevant disclosure to ensure consumers can make informed choices is also fundamental to the concept of effective and efficient markets. In addition, consumers are increasingly making choices based not only on price and quality, but also on how companies are conducting their business in relation to ethical, environmental and labour market standards. The increasing use of triple bottom line reporting and ethical investment ratings is tangible evidence that consumers are not simply interested in the cheapest price.

Surveys conducted about off-shoring in the UK and the USA revealed that negative attitudes to off-shoring were often based on domestic job losses and perceptions of company greed rather than poor customer service. In addition over a quarter of the UK customers who were surveyed intend to change supplier in the next 12 months due to off-shoring (Contactbabel 2004), while 65% of US consumers indicated they would decrease or discontinue purchasing from a company that had off-shored its call centre operations (Kelly 2005)

The principle of 'right to know' has been adopted in France⁴ and legislation has been introduced into several State legislatures in the USA⁵. The 'right to know' was also ALP policy for financial services in the lead up to the 2004 Federal election (ALP 2004).

Recommendation 1: *Introduce legislation that requires service providers to disclose the country where their employees are located at the time of transaction.*

Data security

The level of data security may be inferior in the countries where jobs and/or processes are being located. For example, in 2004 there was no data protection legislation in India, Malaysia, South Africa, Singapore or the Philippines (FDIC 2004). This lack of protection may expose consumers to an increased (and unknown) risk when dealing with companies that have call centres or other processes located in those countries.

Even in countries with strong data protection legislation there have been massive security breaches. During the first half of 2005 cyber criminals hacked into a credit card processing company in Arizona, USA; as a result the private financial details of approximately 40 million people were compromised, including an estimated 130,000

⁴ "Outsourcing Victory in France" Press release 18 October 2004 - <http://www.union-network.org>

⁵ For more information see <http://www.nfap.net/researchactivities/globalsourcing>

Australians. Interestingly the fraud was actually detected by the National Australia Bank's credit card fraud unit located in Melbourne, Australia.

A recent edition of the ABC's program 4-Corners highlighted the risks of cyber-fraud and gave examples of personal details being offered for sale by people described as 'data harvesting brokers' who have started to emerge in places such as India where large amounts of call centres and back office processes are being located through off-shoring (ABC 2005).

Consumers have undoubtedly benefited from advances in technology; however these benefits also carry risks. Vast amounts of personal and financial data are processed and stored every day. Given the increase in 'identity theft' and computer hacking the importance of data security cannot be overstated.

Recommendation 2: *Ensure that any financial or personal information shall not be sent off-shore without the express permission of the consumer.*

3. What does off-shoring mean for affected workers?

The obvious and most serious potential impact of off-shoring for workers is job losses. However, there may also be flow-on effects for people who remain working in companies where some functions have been moved off-shore.

Where processes have been transferred to off-shore locations there may be increased coordination difficulties due to the remote locations of these staff. In addition the remaining staff in the original country are likely to have much better knowledge of the companies' procedures and may be required to deal with an increasing number of problems and complaints that arise due to off-shoring. (There are already first hand reports that this is occurring in some major companies).

Job losses will obviously cause extreme difficulties for those individuals who are made redundant; however there are also wider implications for those working in industries affected by off-shoring. Studies conducted in the UK have shown that the practice of off-shoring has created problems for morale and caused increased insecurity among such workers (Taylor & Bain 2004).

In the USA the practice of off-shoring has already resulted in a lack of skill development and increased unemployment (*Newsweek* 1 March 2004). The main motivation behind off-shoring is to cut costs which (inherently) does not promote the long term development of skills and careers within Australian industry which is already experiencing skill shortages. This trend is likely to continue unless the off-shoring issue is properly addressed.

Training and skill development are critical to Australia's social and economic well-being. They enable employees to deal with change, build on existing capabilities and help to provide a more flexible and productive workforce, making the country more globally competitive.

Recommendation 3: *Develop and promote an integrated plan that promotes and builds Australian skills and capacity.*

All levels of government in Australia should set an example by ensuring that government outsourcing contracts include a provision that work will not be moved off-shore. Over 30 US States have introduced draft legislation that would ban or discourage government contracts being awarded to companies that would perform the work off-shore.⁶

Recommendation 4: *Require that contracts to perform work for Australian government agencies include a condition that the work cannot be sent 'off-shore'.*

4. What does off-shoring mean for countries that receive the jobs?

Off-shoring also raises issues for those countries that receive the jobs. Generally the creation of employment opportunities will be a positive thing for these countries; however there may be various drawbacks associated with the nature of the work being acquired.

Loss of cultural identity and control

In many cases call centre workers are forced to adopt western names and accents to give the impression that they are located in the same country. Some workers find this requirement offensive and akin to 'lying' (Ofreneo 2004). It has also been suggested that this practice is an example of neo-colonialism and racism (Taylor & Bain 2004). In addition, local management may not have much control over any key decisions due to the nature of the company arrangements (Bibby 2003).

Workload and salaries

Many 'off-shored' call centre workers have quotas of 400 calls a day (Ofreneo 2004), compared to an average of 80 for Australian workers. Due to the time difference between the location of the call centre and the country of the customer, a lot of call centre work will also take place during the night (Taylor & Bain 2004). In addition, people working in call centres in relatively low wage countries such as India are often paid around one tenth of what a US or UK call centre worker would be paid for the same job (Ofreneo 2004; DTI 2004).

Lack of bargaining power

In many cases countries receiving off-shore jobs will have very high unemployment (Ofreneo 2004) and low levels of union representation (Taylor & Bain 2004) and consequently have little capacity to bargain for better working conditions. Many of those employed in business process outsourcing in India have never worked anywhere else and consequently are more likely to accept lower pay and conditions as the 'norm' (UNI 2005).

High staff turnover

Given the above factors, it is not surprising that many call centres in India and the Philippines experience turnover rates of around between 30% and 50% (Taylor & Bain 2004; UNCTAD 2004); however some estimates for Indian call centres are even as high as 90% (AFR 2005).

⁶ For more information see <http://www.nfap.net/researchactivities/globalsourcing>

Recommendation 5: *Encourage Australian and international companies to adopt the Union Network International ‘Charter on Offshore Outsourcing’ that requires minimum global employment conditions consistent with ILO conventions for any work performed off-shore.*

Unions generally support the creation of employment in developing countries; however, it must be decent and sustainable work that conforms to International Labour Organization (ILO) conventions. The factors outlined above suggest that many off-shoring exercises may be creating ‘sweatshops’ for the developing countries while increasing profits for the international corporations involved.

Where to from here?

Several international companies have now signed off-shoring agreements with unions that are modelled on the UNI charter.⁷ These types of agreements can provide a tangible first step in addressing some of the issues associated with off-shoring and Australian companies are urged to enter into such agreements with their relevant union.

The unions involved in this paper believe the issue demands immediate and serious attention given the implications for Australian workers, Australian consumers and those countries at the other end of the off-shoring equation.

There must be an appropriate response, including active support for the consumers’ right to know, data security protection and requirements to provide minimum global employment conditions for any work that is moved off-shore.

Rather than looking for short term cost reductions, industry should help to develop Australian skills and experience to provide a more flexible and productive workforce making Australian industry more globally competitive.

Summary of recommendations

1. *Introduce legislation that requires service providers to disclose the country where their employees are located at the time of transaction.*
2. *Ensure that any financial or personal information shall not be sent off-shore without the express permission of the consumer.*
3. *Develop and promote an integrated plan that promotes and builds Australian skills and capacity.*
4. *Require that contracts to perform work for Australian government agencies include a condition that the work cannot be sent ‘off-shore’.*
5. *Encourage Australian and international companies to adopt the Union Network International ‘Charter on Offshore Outsourcing’ that requires minimum global employment conditions consistent with ILO conventions for any work performed off-shore.*

⁷ These companies include Barclays, British Telecom (BT), HSBC and Lloyds. Copies of these agreements can be found at http://www.fsunion.org.au/campaigns/jobs_and_personal_infomation_going_offshore.html

Attachment A

'Off-shoring': Jobs at risk

<i>Industry</i>	<i>Number employed ('000) - May 2004¹</i>	<i>OECD estimates² of potential jobs 'off-shore' (%)</i>	<i>Number of jobs that could be moved 'off-shore' ('000)</i>
Total Australian Industry	9,969.7	19.4%	1,934.1
<i>Selected Australian Industries³</i>			
73 Finance	193.6	86.2%	166.9
75 Insurance	59.2	71.4%	42.3
74 Services to Finance and Insurance	89.2	79.4%	70.8
78 Business Services	941.6	51.7%	486.8
82 Defence	22.7	39.2%	8.9
81 Government Administration	438.1	32.0%	140.2
36 Electricity and Gas Supply	53.3	30.0%	16.0
91 Motion Picture, Radio and Television Services	48.7	29.4%	14.3
24 Printing, Publishing and Recorded Media	111.1	29.2%	32.4
71 Communication Services	177.5	26.3%	46.7
92 Libraries, Museums and the Arts	58.5	25.0%	14.6

¹ - ABS, 2004. *Australian Labour Market Statistics* (Table 2.2) ² - OECD, 2005. *Potential Offshoring of ICT-Intensive using occupations* (pages 13 & 20) ³ - Classifications according to the *Australian and New Zealand Standard Industrial Classification (ANZSIC)* - ABS 1292.0

Attachment B

'Off-shoring' – Service jobs gone

<i>Company</i>	<i>Work Area/State</i>	<i>Jobs performed 'off-shore'</i>	<i>Off-shore location</i>	<i>Info source</i>	<i>Date</i>
AXA	IT and business processes	400	Bangalore	FSU Organisers	2005
ANZ	Software development/IT	1,100	Bangalore	SMH	November 2005
Coles Myer	Credit card processing	150	India	Parliamentary Library	March 2005
Citigroup	Call Centre - Brisbane	150	Manila		
Diners Club	Call Centre - Victoria	82	Manila	Correspondence	February 2005
Hewlett Packard	Call Centre support	128	Bangalore	Parliamentary Library	March 2005
Hutchison	Customer retention and business support	200	Mumbai	Parliamentary Library	March 2005
NAB	Accounts processing	20	Bangalore	SMH	May 2005
	Credit cards/finance/IT	202		The Age	August 2006
Optus	Call Centre Operations	150	India	The Australian	November 2004
Telstra/EDS		400	India	The Age	October 2004
Telstra/IBM	IT	450	India	Parliamentary Library	March 2005
Qantas	Data processing/Flight attendants	500	India	Parliamentary Library	March 2005
	IT support & maintenance	340		Qantas	October 2006
Telstra/EDS		180	India	Parliamentary Library	March 2005
St George	Collections & credit cards	96	India	The Australian	September 2006
Westpac/BT	Back office processing	485	India	SMH	September 2006
	Retail administration	77	India	ABC	September 2006
Total so far . . .		5,110			

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