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Outsourcing: is it working?

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BEFORE her position was outsourced to India, Janet Kaylock faced a final task - to train workers flown from the subcontinent to do her job as an analyst programmer.

For Kaylock, it was like a company passing its best-kept secrets to a rival. Her workmates resented training the Indians to do what they regarded as secure, white-collar jobs with insurer Axa in Melbourne. "Some of them didn't like training people, and others saw the irony of training someone else to do your job," she recalls.

Since the 1970s it's been common for blue-collar work in manufacturing rather than white-collar jobs to be relocated to developing countries.

But today companies are shifting jobs ranging from computer programming to architecture to cities such as Bangalore - India's answer to Silicon Valley - as they rush to match competitors and take advantage of skilled and cheaper workforces.

If they haven't made the move, they're thinking about it. Among the banks, ANZ has an IT subsidiary in Bangalore employing about 650 people; National Australia has shifted 23 back-office jobs to India as part of a pilot project which could lead to more positions going offshore; and the Commonwealth Bank has admitted it's considering moving IT work there.

Not surprisingly, outsourcing - also known as offshoring when the jobs go overseas - is a touchy topic for companies. The image of workers walking out of the office for the last time can be damaging for brands.

The country's largest retailer, Coles Myer, knows the difficulties of convincing workers and customers of outsourcing's benefits. In 2002 GE Capital shifted part of the call centre operations for the Myer department stores to India, resulting in workers in Delhi answering half the customer queries about the retailer's store cards.

Within a year the jobs were moved back to Australia. Coles won't talk to the *Herald* about why.

Dr Peter Holland, a senior lecturer at Monash University in Melbourne, has co-authored a report, *The Role and Influence of Stakeholders in Offshoring*, which examines the Coles Myer experience. He says the about-turn was forced by customer complaints about poor service and problems talking to Indian call centre workers, along with union campaigning.

Where once the debate centred on labour, Holland believes it's evolved into one that includes issues like quality of service and threats posed overseas by access to customer information.

Social and moral issues, he says, proved central to Myer wanting calls to be answered here. "It's your classic Australian company, and when companies like that are seen to export jobs they are more sensitive to it," Holland says.

The telephone ombudsman knows well the response from consumers. The watchdog has received an earful from people annoyed about dealing with operators in Indian call centres.

Despite the backlash from consumers, it's hard to find an economist who's opposed to offshoring. "In the long run we are all better off, just as we have all been better off from the expansion of international trade over the last half century. I don't think it's anything Australia should be worried about," HSBC Australia chief economist John Edwards says. "It's desirable, like any other form of trade. The main reason is that it lowers the overall cost of products and makes the country more competitive and allows the standard of living to increase."

Edwards doesn't believe there's much difference between Chinese workers producing a television destined for Australian consumers and Indian call centre workers answering queries about IT problems. "Just because you can get a call centre less expensively elsewhere doesn't mean you are on the path to economic ruin," he says.

The Organisation for Economic Co-operation and Development is equally upbeat. A report in April by the organisation says offshoring is broadly distributed across countries, even though some major suppliers such as India have emerged. "Some firms, sectors and countries will directly gain from international services sourcing, and consumers will benefit from price and income effects working at aggregate level," the report says.

Economists admit offshoring will put downward pressure on some wages in Australia. In the information technology industry - one of the sectors worst affected - companies are forecast to transfer up to 11,000 jobs overseas by 2008, a report for the Australian Computer Society says.

Good news for companies, but not for some workers. The trend challenges a long-held assumption that a university education opens the door to a lifelong professional job. Now, thanks to IT, a white-collar worker in India or the Philippines can serve customers here.

It's forcing Australia's skilled workers to rethink their careers. Kaylock, 46, got a temporary administration job after her redundancy from Axa in January and is now working as a traffic engineer.

She's ruled out going back to her previous career. "In order to get a job as an analyst programmer I would have to train in new technology. [But] the chances of getting the opportunity to retrain are fairly slim," she says.

Companies, economists and unions take their lead on outsourcing from the United States, where it is emerging as a major political issue. A report by consultancy firm Forrester Research predicts 3.4 million service jobs will be shifted out of the US by 2015.

But academics say job-loss figures in the US or here are at best "guesstimates". Neither the US nor the Australian governments keeps a record of positions outsourced, and companies are unwilling to incur negative publicity by revealing the cost to jobs. To overcome the lack of data, workers in the US notify union websites (such as www.techsunite.org/offshore) of jobs relocated offshore.

"Right now the number of jobs that have been lost are relatively small, but we are just at the beginning of a big wave and a lot of jobs are going to head offshore," says Ron Hira, co-author of *Outsourcing America* and an associate professor of public policy at Rochester Institute of Technology in New York.

It's a subtle shift, catching many unaware of its severity. Hira says the white-collar jobs axed are often scattered between offices in several cities and workers go unheard because they lack a collective voice. In manufacturing, job cuts gain publicity because of the closure of factories upon which whole towns rely for a livelihood.

To economists focused on the "bigger picture", the gains of outsourcing outweigh the losses. To Hira, workers are

the biggest losers. "The CEOs are doing fine and the shareholders are doing fine [from the cost cutting] but they don't see the fate of their US workforce in a negative way," Hira says. "Every business person I have spoken to has a plan for offshoring."

In the worst-case scenario, academics say jobs that can be codified are vulnerable. Call centre or computer troubleshooting roles can be outsourced because workers' responses to customer queries can be scripted. Hira says companies are demanding employees keep records of their tasks so they can be given to workers in developing countries.

OECD econocrats admit Australian jobs are vulnerable. "Close to 20 per cent of total employment in the EU, the US and Australia could potentially be affected by the international sourcing of services activities," the OECD report in April says.

The flip side of the outsourcing debate is that lives in developing nations are transformed. The relocation of jobs from Western countries to India offers a better future for young women like Amishi (not her real name), who moved from Delhi to Bangalore more than a year ago for a job at a large financial firm.

The 25-year-old is the face of India's burgeoning middle class. She holds a Masters in Spanish and hopes to study for a Masters in Business Administration. Her eight-hour day - which rises to 12 hours during busy periods - begins at 2pm and involves collecting financial data for customers in Spain and Portugal. The opportunity arose when the financial firm transferred jobs from Cardiff in Wales.

Every day more young, aspiring white-collar workers step off trains at Bangalore's main railway stations. Naija (not her real name), 22, arrived more than 18 months ago for a job at the same company. She has a commerce degree, is fluent in German and serves customers in central Europe.

Before the company shifted jobs to India, her language skills gained her work only at embassies in Delhi. "Because of this [outsourcing] there are lots of opportunities. The standard of living has actually improved - people can afford things easily now because they are getting paid well," she says.

So far in Australia, the IT sector has borne the brunt of offshoring as companies shift computer programming, billing and processing positions mainly to India.

Rebecca Vedanayagagam, 42, lost her job of 16 years as an analyst programmer at Axa in February when her position was moved to India. "The day I walked out, 100 years of experience walked out of the job collectively. There was a lot of feeling - of betrayal, bitterness and uncertainty, and we are not over it yet," she says.

She is about to begin an IT job but hopes one day to start a catering business. "A lot of us are thinking about getting out of IT altogether. I have a friend who has been looking for IT work for more than 18 months and is retraining in finance."

Axa denies the decision to shift about 200 back-office positions to India was based solely on cheaper labour costs. The insurer considered the suitability of Indian workers, the impact on its Australian workforce and whether work volumes were large enough to make the move viable, says Jane Perry, Axa's general manager for adviser and customer service. "It's not only economic, because I am equally concerned about customer satisfaction," she says.

But it's hard to deny cheaper labour costs are the main reason companies are shifting jobs to developing countries. In Indian call centres the average annual salary of workers last year was \$US1689 (\$2305) - more than 16 times less than the incomes of their counterparts in Australia - according to ACA Research in Sydney.

An ACA report shows the number of call centre "seats" in India soared from 96,000 in 2003 to 172,000 last year. In the Philippines - a country popular among US companies because it's considered more culturally aligned to American customers - call centre seats rose from 20,000 in 2003 to 51,000 last year.

The jobs shifted overseas range from call centre and IT positions to roles as diverse as financial and legal advice, medical analysis and architecture, says Dr Richard Grant, a researcher for the Senate committees in Canberra who wrote a study, *Offshoring Jobs: US and Australian Debates*.

Greater political and economic stability in countries like India and a young and highly skilled workforce make companies more willing to risk relocating jobs, he says.

Of course, it's easy to demonise companies for shifting jobs overseas, says the director of Access Economics, Chris Richardson. The loss of manufacturing jobs to China or IT roles to India has not stopped Australia's economy experiencing one of its most prosperous periods. "Any individual who sees his or her job lost to Mumbai has every reason not to be happy, but Australia as a whole has every reason to be happy because we are getting many more gains than losses," he says.

The Business Council of Australia believes focusing on job losses distorts the net impact of offshoring on the economy. Katie Lahey, the council's chief executive and a David Jones board member, says Australia stands to benefit from multinationals like American Express relocating jobs here.

The council doesn't believe Australia will face offshoring on a grand scale, estimating between 2 and 4 per cent of jobs are likely to be relocated. "Companies will continue to explore it but the overall numbers might not change much," Lahey says.

But it is sobering news for workers left wondering how they can prepare for a world of greater job uncertainty. To cope, Hira advises employees to scrutinise companies. Networking with counterparts at other firms can give an insight into which jobs are likely to be axed. But he warns people not to take company announcements at face value because they have an "interest in obfuscating".

In the US some universities are re-examining curricula in an effort to adapt to the changes. Engineering and computer science faculties, Hira says, are seeking to teach subjects that require specific customer knowledge because they believe tasks that can be compartmentalised will go offshore.

To governments balancing fears about job losses with companies eager to cut labour costs, the OECD report offers advice: "A measured response to international sourcing would be to take advantage of the benefits while managing the adjustment process and maintaining good labour conditions and social welfare provisions."

None of this is reassuring for people like Kathryn Hallam. Her three-year stint in Botany as a technical project manager for telecommunications company Equant ended in February when her job was relocated to India. Hallam, in her late 30s, is now working as a call centre controller at telecommunications company AAPT but admits: "Outsourcing means greater uncertainty for workers in Australia."

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