

ippr Seminar:

“Offshoring Practices in the UK - Where are the Limits?”

Friday 30th July, 15:00 - 17:00
Institute for Public Policy Research (ippr)
30-32 Southampton Street, London

Chair

Will Davies, Senior Research Fellow, ippr

Speakers

Mark Kobayashi Hillary, Offshoring Consultant and author of “Outsourcing to India: The Offshore Advantage”

Ian Brinkley, Head of Economics and Social Affairs, TUC

Graeme Leach, Chief Economist, IoD

Biographies

Ian Brinkley

Ian Brinkley was appointed as Head of the TUC's Economic and Social Affairs Department in February 2004. He manages the TUC's work on economic, labour market and industrial policy, the public services, pensions, working time and the national minimum wage, corporate governance, and the welfare state.

Before taking up his new post, Ian had been the TUC's Senior Economist since 1997. Ian was responsible for developing the TUC's economic policy and labour market analysis, including preparing the TUC's annual Budget submission to the Chancellor and the publication and presentation of a wide range of TUC reports and statements on economic and labour market issues. Prior to joining the TUC, Ian held research posts at the University of Kent and the Centre for Environmental Studies.

Ian was born in 1954, an economics graduate of University College London.

Will Davies

Will Davies is a Senior Research Fellow on the Digital Society programme at the Institute for Public Policy Research. Previously, he worked on The Work Foundation's iSociety project, where his research focused on the relationship between communities and new media. He is the author of two iSociety reports *You Don't Know Me, But...: Social Capital & Social Software* looking at new uses of the internet in supporting social networks, and *Proxicomunication: ICT and the Local Public Realm* exploring uses of ICT in sustaining local communities, 50which is published on 29th July.

Mark Kobayashi-Hillary

Mark Kobayashi-Hillary is a British writer and independent outsourcing consultant, based in London. He is the author of "Outsourcing to India: The Offshore Advantage", (Springer Verlag 2004), www.outsourcingtoindia.net.

Mark has worked at a senior level for several leading banking and technology groups in Europe and the US, including SocGen and Sanford C Bernstein. During this time, he has been involved in managing outsourced relationships in the UK, Singapore and India.

Mark is a founder member of the British Computer Society Working Group studying the effect of offshore outsourcing on the British economy and IT industry.

Mark studied Computer Science and Software Engineering at the Farnborough College of Technology (University of Surrey) and for his MBA at the University of Liverpool. He is a Chartered Information Technology Professional (CITP) and a full member of the British Computer Society (MBCS).

Graeme Leach

Graeme Leach is chief economist at the Institute of Directors, which he joined in August 1998. In 2004 he was appointed visiting professor of economic policy at the University of Lincoln.

Prior to joining the IoD he was economics director at the Henley Centre, analysing future economic and social change. In 1998 he was awarded the WPP Atticus Award for original published thinking in economics.

Previously Graeme has worked as economic adviser to the Scottish Provident Investment Group and as a senior economic consultant with Pbeda.

He is a frequent media commentator and in recent years has spoken at conferences in the USA, Germany, Italy, France, Spain, Sweden, Ireland, Belgium, Greece, Taiwan and Zimbabwe.

Attendee List

Richard Acworth	Public Affairs Manager, Norwich Union
Matt Adey	Economist, DTI
Tom Bagguley	Senior Economist, CBI
Tim Bond	Founding Partner, Launch Offshore
Ian Brinkley	Head of Economics and Social Affairs, TUC
David Coats	Associate Director Policy, The Work Foundation
James Crabtree	Research associate ippr
Richard Darlington	Media Manager, ippr
Stephen Darvill	LogicaCMG
Will Davies	Senior Research Fellow
John Earls	Joint Head of Research, Unifi
Andrew Fairburn	Associate Director, Public Affairs, Hill & Knowlton (UK) Ltd
Grant Fitzner	Director, Employment Market Analysis and Research, DTI
David Fleming	National Officer, Amicus
Prof. Mike Gregory	Head, Manufacturing and Management Division, Department of Engineering, University of Cambridge
Linda Griffin	China Researcher, Foreign Policy Centre
Jules McGrindle	Senior Account Executive, Hill & Knowlton (UK) Ltd
Julian de Jonquieres	Reform Britain
Emily Keaney	Research Assistant, ippr
Simon Kelleway	Capita
Malcolm McKinnon	Project Co-ordinator, Offshoring, DTI
Mark Kobayashi-Hillary	Offshoring consultant
Jenny Larden	Centrica
Graeme Leach	Chief Economist, Institute of Directors
Sol Mead	Unison
Saba Mozakka	Research Officer - Finance Sector, Amicus
Clare MacNamara	Head of Whitehall Relations, BT
Nick Penston	Public Sector Business Development Manager, Cisco
Joe Phelan	Hill & Knowlton (UK) Ltd
Howard Reed	Research Director, ippr
Keith Sharp	Brand and Marketing Communication, TATA Consultancy Services
Emma Shepherd	Account Executive, Public Affairs, Hill & Knowlton (UK) Ltd
Nina Soday	Strategy Manager, Abbey

Summary of ippr seminar: Offshoring Practices in the UK – Where are the Limits?

Chris Tuppen

Head of Sustainable Development and Corporate
Accountability, BT

Lee Whitehill

Senior Press Officer, Amicus

Anna van Zoest

Research Associate, ippr

Summary

Need for perspective

The current debate about offshoring tends to simplify reality, most attendees agree. The number of service sector jobs at risk of being off-shored is subject to exaggeration. After all, many jobs – such as those in construction or hospitality –by definition cannot be shifted overseas. It was also pointed out that the rate of growth in service sector jobs in Europe and the US more than compensates for the decline caused by offshoring.

Also, we should not lose sight of the fact that outsourcing *within* the UK often has the same effects on the micro level as outsourcing overseas. Immediate job losses as a result of outsourcing also occur if a company decides to relocate work with an external supplier within the same country.

However, it was also recognised that, while economists' evidence on offshoring may not itself be cause for panic, this isn't very useful evidence when it comes to allaying the anxieties of those whose jobs are actually at risk. The statistics on offshoring suggest that it is still not a highly significant economic phenomenon, yet this doesn't mean that it couldn't become a highly significant political phenomenon if panic developed.

The politics of offshoring

The UK is historically less prone to protectionism than the US, and it is notable that policy debates in this country do not take protectionism very seriously. In the US, by contrast, both Democrats and Republicans seek to make assurances that they will protect American jobs. In the UK, there is little mainstream political debate on this topic, because there is no politically credible alternative to free trade.

Despite the fact that most economic evidence suggests that offshoring is broadly positive – both for the UK and for the nation receiving offshored jobs – public discussion around offshoring is predominantly negative. Estimates suggest that the number of jobs at risk of offshoring could be in the order of a quarter of a million.

Benefits of offshoring need to be assessed both from the point of view of business (cheaper labour, and sometimes better access to skills) and the point of view of consumers. The positive case for offshoring must consider both the fact that it pushes Britain towards higher value-added jobs, and the fact that cheaper production costs get passed on to the consumer. At the

seminar, there was no over-arching *economic* case presented *against* offshoring.

The negative consequences of offshoring, on the other hand, may not be so easily quantifiable. Individual firms may suffer from the impact on morale of outsourcing jobs (either within a nation, or overseas); communities hit by offshoring may suffer severe damage to their social fabric; businesses may discover that it is far more complex and difficult to manage their operations over large distances, and what they thought were peripheral functions turn out to be more important than that.

The need for caution was emphasised, with some attendees stressing that Britain should not rush industrial restructuring in the way that it did in the 1980s. Companies should not assume that offshoring will automatically cut costs, because hidden costs may only become clear over time. Given that the costs are social and psychological, these may not always show up in a business plan.

Assuming that offshoring will continue to take place, the politics of offshoring centres around the question of who should take responsibility for ensuring that it is done ethically, and who should take responsibility for ensuring that those involved are properly educated about it. Opinions were divided on this.

Debates focus on whether individual companies should carry responsibility for upholding standards, or whether over-arching regulatory frameworks were required. A combination of the two could exist: in the 'host countries', companies could guarantee fair labour practices, in accordance with ILO standards. Attendees with first-hand experience in the offshoring business replied to this concern that labour conditions for workers employed by European and American companies in low-wage countries are most often exceptionally good.

At home, companies considering offshoring should make sure to consult their employees if offshoring is considered. Also, companies should aim that those who lose their jobs as a result of offshoring are redeployed within the organisation, and if necessary receive extra training to upgrade their skills. Whether government has a role in this is unclear.

There appeared to be a need for guidelines for companies on how to deal with the human side of offshoring, as well as a set of best practices that companies throughout the UK can learn from. One attendee expressed his concern about the lack of discussion between stakeholders on this topic. Mechanisms to get people around the table are needed to discuss how we are going to handle this trend. DTI, the unions, DWP, RDAs, CBI and IoD should all be involved in this.

Public sector offshoring

One attendee raised the issue of off-shoring of public sector jobs. Most felt that this was something that was most viable only at a central Government level, and that local government would be too resistant to such a process.

The question was raised whether we should apply different assessment criteria to offshoring in the public sector. It could be argued that the locality of government services is a central part of their value, especially in local government. This feeds into broader debates about e-government, and the extent to which ICT potentially impoverishes the citizen-state relationship, by reducing it to an online service-user relationship.

It seemed that this topic will grow in importance in future, but that there is little evidence on it at present.

The local dimension

Offshoring is mostly felt at the local level. First of all, immediate job losses which occur as a result of offshoring hit regional economies rather than national labour markets: it is in local communities where the effects of offshoring are mostly felt.

Areas of further research

Although we are aware of the macro-economic dimensions of offshoring, we lack a clear analysis of its micro and socio-economic effects, particularly in the following areas:

- We have little information about the distributional consequences of offshoring. If people lose their jobs because UK companies outsource jobs offshore, how quickly do they find new employment and where? Need for qualitative studies in this area.
- How do companies deal with employees affected by offshoring? Trade unions ask for consultation processes and inclusion of employees in decision-making if offshoring is considered. Employers, employees and government all agree that, ideally, workers who lost their jobs as a result of offshoring move up the value added chain into higher-skilled jobs. Are there existing mechanisms or best practices companies throughout the UK can learn from?
- Given that the offshoring trend has affected certain geographical areas in Britain in particular, what has been the impact of offshoring on local communities?

- Companies continue to rush into off-shoring decisions, without ways of measuring the full costs. By and large, the benefits are more measurable than the costs, the latter tending to be longer term and more hidden. More evidence at the organisational level is required, to highlight which functions can and can't be successfully offshored.

Conclusion

The majority of attendees agreed that the debate on offshoring should move on to a next stage. There has been enough talk on macro-economic and long-term benefits to the UK economy; it is now time to look at the micro effects of offshoring and the way it affects local communities and daily lives throughout Britain. So far, evidence on the immediate effects of offshoring is anecdotal. Public discourse around this debate is incomplete without more analysis and micro evidence.

A lack of adequate evidence in this area may not simply be an issue for specialists either. The politics of off-shoring are shaped by the fact that government, business lobbies and even trade unions share a broadly similar economic perspective on it, but that this doesn't translate into useful, practical solutions at a local level. Moreover, the weight of macroeconomic evidence has not yet been counter-balanced by useful evidence on the social implications, both within companies and across communities.