A Comparative Analysis of Working and Employment Conditions in Offshore and Outsourced Business Service s

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Introduction

The global sourcing of busi ness services has become a growing trend in recent years. Business services had hi storically been provided within the organisation, or if functions were outsourced they were located in industrialised countries. However, as technology has advanced and become more ubiquitous even in developing countries, organisations have been giving greater consideration to offshoring and offshore outsourcing certain business functions in order to cut costs on non-core business functions. The potential market for the global sourcing of business services is extraordinarily large: it has been estimated to be valued at up to US\$ 386 billion (Tagliabue 2007). Other estimates suggested this figure would reach US\$ 200 Billion by 2008 (UNCTAD, 2004). Regardless of which estimate is chosen it is clear that the total global value of this industry is substantial.

The industry that has emerged and developed around business process services (BPS) has changed the conception of what services are performed and where an organisation chooses perform them. The industry that has grown has developed into what is called the BPO-ITES industry. Business process outsourcing (BPO) i s the industry that provides functions and processes. Information technology-enabled services (ITES) are the advanced information and communication technologies that are essential to enable delivery of BPO functions from any location. The BPO "industry" and the IT-enabled services (ITES) that it provides at a di stance from locations around the world have their own unique vocabulary—see Box 1 (next page) for a summary of key definitions related to remote work and the global sourcing of business services. No matter how you define them, however, these services have been expanding dramatically. According to Minevich and Richter (2005), the industry was expected to continue growing due to the expansion of services provided via technology and the emergence of a multitude of remote work arrangements in the BPO "industry"—the best known being call centres—which has translated into different, yet similar forms in various parts of the world, such as India, the Philippines, Central Europe, the Russian Federation, and Latin America. A range of other BPO "industry" studies have made similarly optimistic forecasts for future growth (e.g., A.T. Kearney, 2007a). evidence, one needs look no further than the Philippines: in the brief period between 2000 and 2007, the Philippine BPO industry grew from only four companies with approximately 2,400 employees and a mere \$24 million in annual revenues to 125 companies with more than 237,000 employees and an estimated \$3.3 billion in annual revenues (Amante, 2008). This dramatic growth has made the Philippine BPO "industry" the second largest in the world after India's.

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[1] The views expressed in this article are solely the views of the authors. The views do not represent the ILO, its constituents, or any affiliates of the organisation in any way, shape, or form. Naj Ghosheh (Ph.D.) is a research officer with the Conditions of Work and Employment Programme at the ILO in Geneva. Jon Messenger is a Senior Research Officer with the Conditions of Work and Employment Programme at the ILO Geneva.

Box 1. Key Definitions related to Remote Work and Global Sourcing

Business Process Services (BPS): Services that involve the processing of business transactions, such as insurance, credit card claims, and payroll. There is nothing particularly new about these business functions; the "new" aspect is that many of these services are now *IT-enabled* (see the definition below)—which means that they can now be "outsourced" or even "offshored" (see the definitions below) with relative ease via ICTs.

Information Technology-enabled Services (ITES): a form of BPS which is made possible by the use of advanced Information and Communications Technologies (ICTs). ICTs are the *essential enabler* of the remote delivery of BPS. ITES is used in various industries, such as finance, insurance, telecommunications, etc. Examples are legal and medical transcription, accounting, insurance claim handling, credit card processing, etc.

Remote Work: A more common name for business services provided at a distance using ICTs. Essentially, remote work is a synonym for ITES, although in this paper, we will use the term mainly to describe those jobs that involve providing ITES to customers across the world.

Business Process Outsourcing (BPO): The name of the "industry" which provides ITES functions and processes, along with the associated operational activities and tasks. The use of quotation marks around the term "industry" is meant to signify that BPO actually consists of the ITES segments of *other* industries, such as finance and telecommunications.

Outsourcing: the subcontracting a process, such as product design or manufacturing, to another company—called a third-party provider. Outsourcing may occur within a country or outside of the country—in the latter case, it is termed "offshoring" or, if a nearby country, "nearshoring".

Offshoring: The phenomenon of locating IT-services and business process services in locations outside of the source country, largely enabled through recent advances in communications technology, to leverage differences in wage levels and the availability of skilled labour across borders.

Nearshoring: This term refers to sourcing ITES to a country that is relatively close to the source country in terms of geographic distance, time zone, or both (also called "nearsourcing" and "nearshore outsourcing").

In-house or "Captive" unit: the situation in which companies set up their own, wholly-owned *offshore* subsidiary to provide ITES to its customers.

Third-party Provider: a company that is paid, usually based on the number of calls taken or quality assurance measurements, to provide ITES for another company. A third-party provider will generally handle several different contracts from different companies at the same time.

Definitions in Messenger & Ghosheh (forthcoming 2009)

The Role of Information and Communications Technologies (ICTs)

The dramatic expansion of the BPO industry up until recently, as well as its potential for future growth, is very dependent on the diffusion and cost of ICTs (i.e., the level of development of the information society in a particular country). ICT diffusion in a particular country can be measured by components such as: a) the number of telephone lines, b) the number of personal computers, and c) the number of internet users (A.T. Kearney, 2007a). Most of the countries analyzed in this report have been modernizing their telecommunications infrastructure; deregulating their telecommunications sectors mainly to lower costs; constructing networked facilities in free zones; and expanding access to the Internet. Consequently, the level of development of the information society has been growing substantially.

In an attempt to gauge the level of ICT development in different countries, the International Telecommunications Union (ITU) has designed a Digital Opportunity Index (DOI) covering 180 countries. The ITU's DOI is based on eleven core ICT indicators grouped into three clusters (ITU, 2006 and 2007). These three clusters are as follows:

> 1) Opportunity, including the percentage of population in areas covered by mobile cellular telephony (not necessarily subscribers); Internet access tariffs as a percentage of per capita income; and mobile cellular tariffs as a percentage of per capita income;
> 2) Infrastructure, including the proportion of households with a fixed line telephone; the proportion of households with a computer; the proportion of households with internet access at home; the number of mobile phone subscribers per 100 inhabitants; mobile internet subscribers per 100 inhabitants; and
> 3) Utilization, including the proportion of individuals that used the internet; the ratio of fixed broadband subscribers to total internet subscribers; and the ratio of mobile broadband subscribers to total mobile phone subscribers.

The indicators are averaged within each cluster and then the three clusters are averaged to obtain the digital opportunity index value. Generally those countries with higher levels of development show higher levels of "digital opportunity". Europe and Latin American countries tend to score a bit higher on this index that those in Asia and especially Africa. There are also a few anomalies—most prominently India, whose relatively low overall DOI rating (especially on infrastructure and utilization) fails to account for the existence of a few highly-wired ICT "hubs" in the country, such as Bangalore, Hyderabad, and Mumbai; these ICT hubs also serve a "Tier I" cities for India's BPO industry (D'Cruz and Noronha, 2008).

The Global "Map" of BPO: Major Source & Destination Countries

There are a range of different factors that determine whether companies engaged in BPO will in fact outsource particular ITES functions, activities, and tasks to a particular geographic destination. One attempt to bring these factors together in a comprehensive manner is the Global Sourcing Location Index proposed by A.T. Kearney (2007a). This index has three main components:

1. "Financial attractiveness" takes into account variables such as labour costs, taxes, regulations, etc.;
2. "Human resources" includes work experience, qualifications, and educational degrees of the potential BPO workforce; and

3. "Business environment" comprises the political and economic environment in a country, the protection of property rights, cultural adaptability, and infrastructure indicators.

It must be emphasized that this index provides only one indication of the attractiveness of particular countries from a BPO perspective. Moreover, the index does not always reflect the actual size of the BPO industry in each country.

There does tend to be regional dominance in the industry. Asian countries tend to rank highest on the list of global BPO destinations. India, the Philippines, China, Malaysia, Thailand, and Indonesia are among the top ten locations. Among Latin American countries Brazil, Chile, Uruguay, and Argentina are the main locations for this work. Latin America has an important advantage in that it is able to serve five disparate markets: Pan-Latin America, Spain to Latin America, U.S. Hispanic, U.S. English-speaking and Local in-country markets—all of which have been growing very fast and which represent different market opportunities (Shankardass, 2007). In Europe the industry is dominated by eight Central and Eastern European countries including Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Slovakia, and Poland, which provide nearshore platforms for low-cost business processing and IT services in European Union member states. Countries in the Middle East also are developing "green sprouts" in this industry with Egypt, Jordan, and the United Arab Emirates developing industries for Arabic speaking countries in the region. Finally among African countries Morocco, Senegal, Tunisia, and South Africa have been the most attractive destinations for services in the Middle East, and Europe.

Despite this seemingly wide array of factors that affect companies' global sourcing decisions, it appears that many BPO "industry" sourcing decisions ultimately hinge on two key factors: potential cost savings and the skills of the available workforce, particularly language skills. Undoubtedly, the potential for achieving substantial cost savings via the offshoring of business services is a major factor in nearly all companies' global sourcing decisions (see e.g., Taylor, 2008; D'Cruz and Noronha, 2008; López, 2008). The magnitude of the cost savings that can be achieved by sourcing business services from the US or Western Europe to these other geographies with estimated cost saving 15% in Eastern Europe up to as much as 50% in India.

The skills of the available workforce in a country are a second key factor affecting global sourcing decisions. In particular, language skills are essential for many BPO activities, not only for voice services such as those provided by call and contact centres, but even for many back office services as well. The global sourcing of ITES follows linguistic contours. Thus, offshored ITES for the two largest Anglophone countries, the United States and United Kingdom, are India and the Philippines which have larger English speaking populations; for Spanish speaking populations in Spain, Latin America, and parts of the United States the growth of these industries has taken place predominantly in Latin America; and for Francophone countries in Europe (France, Belgium, Eastern Switzerland), French speaking countries such as Morocco, Tunisia, and Senegal have become prime destinations.

The Rationale for Outsourcing and Offshoring Business Services

In the globalised economy, companies and other organizations are often compelled by competitive pressures to attempt to assert dominance in the market or service that they provide. This persistent pressure has led companies to continuously re-evaluate what they do and how they do it, and to focus on how they could do what they do more cost-effectively. Outsourcing, especially in recent years, has been a tool of

choice in order to achieve this end. It takes place when an organisation opts to purchase externally what it would otherwise have to make or provide internally. In real terms, this choice actually involves greater specialization, as firms switch from producing goods and services internally to sourcing them from an external supplier (Sako, 2006).

Outsourcing is neither a new concept nor application in organizations and has been a staple in the manufacturing sector for many years (Gereffi, 2005). It is not even particularly new in the context of the services sector. Some of the dimensions of services sector outsourcing, such as call centres, were developed and have been an industry for over 20 years in some industrialised countries, primarily the United States, but also in the UK, Australia, Canada, and more recently, Spain. Telephone operator call centres were viewed by managers in the telecommunications industry as a model of efficiency that they hoped to reproduce for other types of service delivery. By contrast, call centres in finance and IT are a comparatively recent innovation (Batt, et. al., 2005). In the early stages of their development, the call centres were located regionally and often in suburban or more rural locations to keep labour costs down (Taylor, 2008). In their early incarnations they did not serve national markets, although as time passed the typical call centre began serving national markets on a more frequent basis (Bain and Taylor, 2002). However, as Dossani and Kenney have noted, while there was considerable cost savings in these locations, one of the main factors limiting the scale of operations, and their potential growth, was the lack of highly-educated employees in these locations (Dossani and Kenney, 2007).

One important development which helped to drive the expansion of the BPO industry was the process reengineering movement in management and business in the 1990's, which focused on the cost savings that could be achieved through reorganization and restructuring of business processes (Dossani and Kenney, 2007). This involved the standardisation of activities to complete a process, and by means of this standardization, the creation of "pinch points" through which handoffs would allow the separation of work either geographically, organizationally, or both (Dossani and Kenney, 2007). This process included the digitization of work tasks or entire processes through which managers could calculate the most cost-effective way to complete an activity. Another important factor driving the expansion of the BPO "industry" was advances in ICTs, such as Voice-Over-Internet Protocol (VOIP) and automated call distribution systems. The ability to reengineer processes that essentially erased organizational and especially geographic boundaries, combined with new and increasingly inexpensive ICTs, opened up a whole new dimension in the ability to offshore service sector work. These factors thus unleashed the potential for the development of the BPO "industry" in developing countries.

Nonetheless, as Dossani and Kenney saliently point out, technological advances (and also process reengineering) were a necessary, but not sufficient, condition for firms to move their services sector activities offshore (Dossani and Kenney, 2007). According to them, however, it was equally important that decision makers in companies based in industrialized countries be persuaded that offshoring was an acceptable strategy or, in Dossani and Kenney's words, a "legitimate" one (ibid., 2007).

Managing the Relationship in Offshoring and Outsourcing Situations

A company's decision to outsource and/or offshore ITES functions is not an end so much as it is a beginning, creating new and different organizational imperatives. The challenge for organizations is to develop practices for managing the transfer of

information across spatial and organizational boundaries, which on occasion requires some face-to-face meetings between the upstream firm and the "captive" unit or third-party offshore provider (Manning, Massini, and Lewin, 2008; Willcocks and Lacity, 2006). However, those mechanisms needed to manage the function and the staff handling that function offshore but within the organisation (e.g., the "captive" unit or subsidiary), and those mechanisms necessary for managing outsourced offshore functions, are different. In-house offshoring of business service functions requires mechanisms to manage and transfer information within the organisation, which if not done properly could diminish the effectiveness and efficiency of the offshoring operation. This mainly requires good communication: reliable channels to communicate between managers sending work tasks and those receiving them, as well as among the managers and workers performing the work in the subsidiary's office.

Managing the relationship between company headquarters in the same country and the offshored unit or offshored/outsourced function in the destination country is critically important, and can have a profound effect on the working and employment conditions of those performing the downstream function in the "captive" unit (subsidiary) or the third-party offshore provider. For example, if the targets or deadlines in the contract or agreements between the organisation and offshore provider are not clear (which happens more often than might be expected) or are unrealistic, managers in the offshore facility may require their workers to work longer hours to meet or exceed the perceived or unrealistic target is rather than risk losing the work from the upstream organisation. Another variation of this is that if the manager of the offshore facility does not have a clear understanding of what and how business functions are to be delivered the manager may be inclined to ask for greater efforts from the workforce to compensate for the lack of clarity. In this case, role ambiguity can take place for workers in these facilities as they struggle to provide effective responses to unpredictable circumstances or work through uncertainty of poorly defined work tasks, the result of which may be greater stress for workers and managers in the workplace.

The Study

The paper will attempt to synthesize material from a variety of individual country studies conducted for the ILO's Remote Work and Global Sourcing Project and integrate them with the limited existing literature on working conditions in the BPO industry. This will be done in order to identify common patterns and differences in these types of workplace in different countries.

The paper will begin with an examination of a number of macro-level factors that have influenced business decisions regarding the outsourcing and offshoring of business functions that exists in the BPO industry in destination countries. The first section will review the reasons why offshore outsourcing of business functions took place and why the countries in this study (Argentina, Brazil, India, and the Philippines) were considered so attractive for this purpose. It will profile the global BPO industry, both as an industry and the characteristics of its workforce. It will then highlight what factors have contributed to the growth of these industries in these countries (i.e. MNC's opening facilities, government policies, etc.).

Contrary to some forms of globalization (e.g., Export Processing Zones (EPZs) in manufacturing), government policies to attract BPO companies have not appeared to undermine labour law in order to promote this industry, which forms the second section of this paper. This section will analyse the labour law provisions regarding working and employment conditions that are applicable to the BPO "industry" in

different countries, and explain why these laws have not been viewed as a barrier to industry growth.

The third section of the paper will highlight the business strategies involved in the decision to outsource and offshore business functions and the implications of such decisions for the working and employment conditions in the workplaces where these functions are sent, with a particular emphasis on those destination countries that are the focus of this paper. It will further attempt to make sense of this diversity by developing a categorization of the most important types of remote work arrangements that exist in the global BPO "industry".

Moving from macro to micro level, the remainder of the paper will examine the working conditions in the BPO industry in the aforementioned countries. As the jobs in this industry are often prized in developing countries, the section will provide a brief overview of the concept of "job quality" and identify specific dimensions for an analysis of job quality in the BPO "industry". This framework will then be applied to the conditions of work and employment (i.e. wages, hours of work, work schedules, job stability, etc.) in the major BPO destination countries (Argentina, Brazil, India, The Philippines) examined in this paper. It will examine how these conditions vary in the different categories of remote work arrangements, such as call centres vs. back office work. This will set the stage for the concluding section, which will offer some suggestions for government policies and company practices that hold the potential to both improve remote work arrangements and enhance the performance of BPO companies.

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