UNI global union
8-10 Av. Reverdil
1260 Nyon
Switzerland
Tel: + 41 22 365 2100
Fax:+ 41 22 365 2121
contact@uniglobalunion.org
www.uniglobalunion.org

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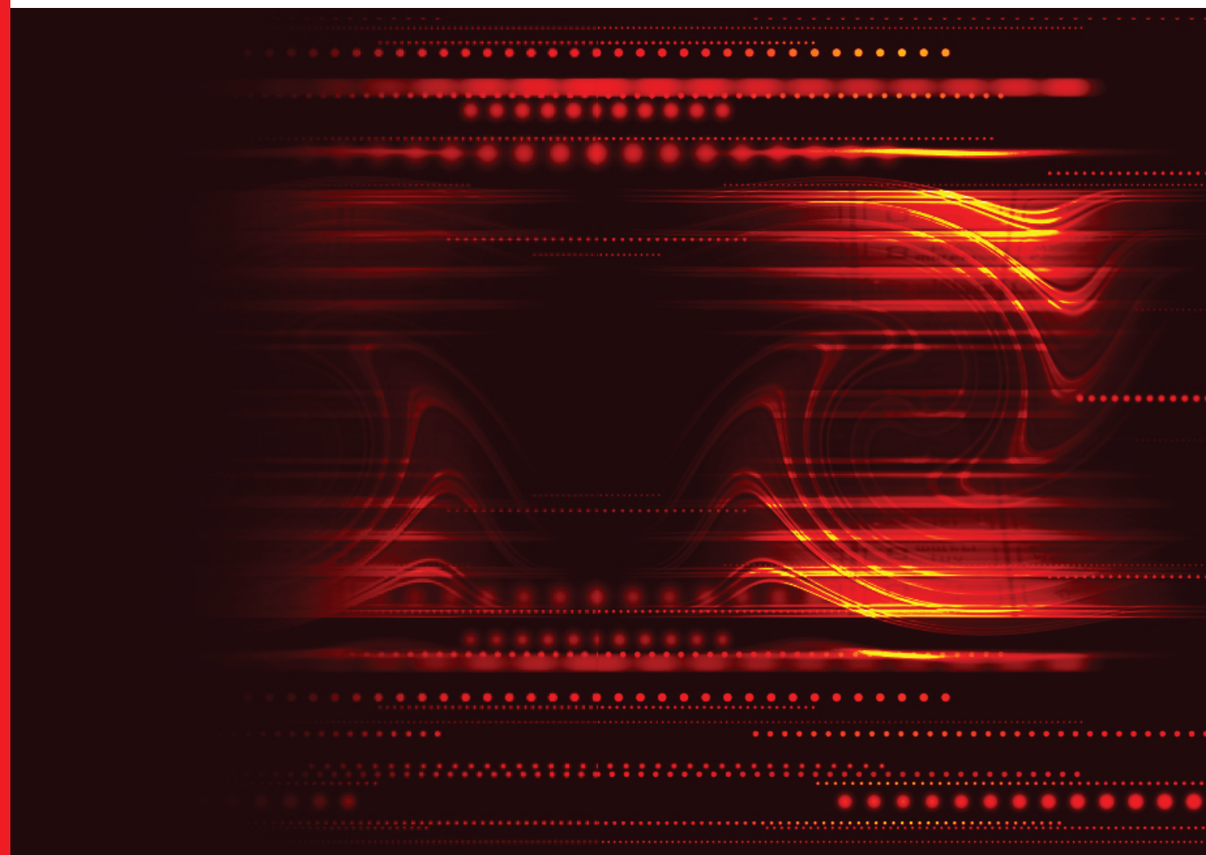
# UNI Offshoring Code For Managers



## The Principle of Responsability: Ethical Management in Offshoring Processes

# UNI Offshoring Code for Managers

## The Principle of responsibility: Ethical management In Offshoring processes

**A report for UNI Global Union**

Editorship: Karin Hirschfeld
id.text, Berlin

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# Foreword

Until quite recently, the offshoring of knowledge-based activities appeared to be quite a brave undertaking. Now, however, it is a routine element in the corporate decision-making toolbox. From accounting to software development, or data analysis to customer service: modern information and communication technologies enable companies to distribute knowledge-based activities around the globe, and thus puts them in a position to flexibly utilise the competitive advantages of suppliers at various locations. Today the offshoring of services to India, China or Eastern Europe, for instance, is no longer an unusual step, but is rather a normal fact of economic life.

Nevertheless, the issue remains highly contentious. Too close are its links to the fears of employees in the originating companies for their livelihoods; too great are its feared and very real effects on the everyday work of employees, their job security and opportunities for advancement. After an initial phase in which offshoring primarily involved simple services such as data entry, followed by IT services and relatively standardised business processes, the range of activities has broadened considerably. Service providers at faraway locations are increasingly offering high-value knowledge-based work such as legal, medical and analytical activities. This is shrinking the number of employees in rich industrialised countries who can consider themselves safe from offshoring processes.

Although offshoring can benefit companies through greater flexibility and create advantages in terms of costs and competitiveness, there is considerable debate as to whether, on balance, it destroys more jobs than it creates in the country of origin. And for those employees who have to fear for their jobs, any beneficial effects on the economy as a whole are a small consolation. In some places the new competition from far away is prompting attempts to spread resentment against workers in foreign countries or to seek support for protectionist measures. “Ethical offshoring", by contrast, must pursue the goal of ensuring the greatest possible protection and good working conditions for employees inside and outside national boundaries.

This guide is intended for all managers who generally face wide-ranging choices, interests and restrictions when dealing with offshoring processes. When working out the specifics of the transfer of activities, however, there are degrees of freedom that managers with a sense of responsibility can – and should – utilise in the interests of employees. Many of them definitely coincide with company objectives. Simply by planning the transfer process thoroughly and involving employees (and their representatives) at an early stage, much can be done to avoid negative effects on the workforce and the atmosphere in the workplace. Investments in staff training are also definitely in the company’s interests. If the management wishes to secure the company’s long-term prospects, it should refrain from any extreme attempts to slash costs in the short term. Apart from the social tensions such attempts often cause, they also frequently cause undesired side effects and additional costs that run counter to the company’s economic objectives. What is needed – even in the case of offshoring – is sustainable company development. This includes proper treatment of employees on both sides.

## Structure of this guide

This guide consists of two parts: It begins with an overview of various aspects of offshoring that affect the working and employment situation of the workforce. This overview is based on a number of case studies which examined outsourcing processes – in some cases over a period of several years – a change in the original motives for outand in this way arrived at assessments of the long-term impact[1] This is even more important in view of the fact that, over the course of time, there is sometimes sourcing and the related strategy. This may take the form of an expansion of outsourced activities, a transfer of the activities to another country, or a return to the country of origin.

The second part, and the actual core of this guide is a code of conduct for managers involved in offshoring processes. In view of the conflicting forces faced by managers when outsourcing work to distant countries, the code of conduct is intended to provide orientation and a common standard to guide the actions of responsible managers. The code of conduct indicates where an employee-centred policy is possible and economically viable, and when such a policy can be expected.

The code of conduct includes a number of trade union recommendations to make it easier for employee representatives to deal with offshoring, including the MOOS Handbook developed by unions and research institutes, the UNI Offshoring Charta and a number of company-specific master agreements. Underlying these initiatives is the position that unions, too, must accept the phenomenon of offshoring as an economic reality and that, despite the considerable potential for conflict, there are numerous possibilities for preserving and protecting the interests of employees on both sides.

1 The research projects EMERGENCE, Asian EMERGENCE and Grenzenlose Arbeit ("Work Without Borders") studied outsourcing projects between European companies and companies in various destination countries between 2000 and 2003. The studies were based on interviews with managers and employees of at various levels within the companies dating back to the 1990s. Publications: Flecker et.al. 2002; Hirschfeld 2002; Huws et.al. 2004.

A responsible approach should also take into account the concerns of other parties affected by offshoring processes. Consequently, the impact on customers, society and the environment must always be considered as well. That is the only way to ensure that offshoring does not become a good business proposition at the expense of others.

## Offshoring: work on the move

International trade in IT services and business services has increased substantially since the mid-1990s (OECD 2006). The possibility of outsourcing services with the aid of IT has opened up new options for companies in the geographical distribution of tasks.

While some companies transfer work to their own subsidiaries (internal offshoring), others move activities to independent partner companies (offshore outsourcing). For companies in "old Europe", outsourcing to eastern European destinations (so-called nearshoring) plays an important role. In the early stages it was mainly routine tasks that were seen as suitable for outsourcing. Increasingly, however, the trend is spreading to sophisticated activities, as illustrated by the relatively new term "knowledge process outsourcing." Demanding work now affected by offshoring includes market research, remote medical consultation, financial statement analysis and editorial work.

The scope and range of offshoring can vary considerably in practice: In some cases the objective is to bridge short-term project bottlenecks by drawing on external expertise, for instance when developing a new software module. In other cases offshoring is part of a complex, group-wide reorganisation process, for instance when entire functions are centralised within a global corporation or outsourced to India, with correspondingly far-reaching consequences for the workforce.

## Offshoring motives and decisions: Systematic approach is the key

Common motives for offshoring are lower labour costs in the destination country, greater flexibility as well as specialisation advantages and access to expert knowledge. However, reports from real-world experiences show that in some offshoring decisions, companies do not perform a systematic and comprehensive assessment of alternatives, and that the choice of partners and the details of the offshoring process tend to emerge from the situation at hand on an ad hoc basis. In some cases management fads play a considerable role without adequate consideration given to the company's individual starting position. Potential cost savings and quality advantages are often overestimated, whereas too little attention is paid to risks and costs, for instance those resulting from additional expenses for coordination, quality control or travel. "You shouldn't underestimate the work to be done at the home location," says one observation based on actual offshoring experience. It is often only in the implementation phase that the anticipated spectacular cost advantages begin shrinking as unexpected obstacles suddenly appear.

Unrealistic expectations regarding the advantages of offshoring often have very concrete consequences for the employees concerned – when the offshoring move is reversed, for instance, causing job losses in the destination country, or when everyday difficulties arise when the offshoring operation is up and running. Consequently, responsible offshoring starts with good planning.

## Involvement of employees (and/or their representatives): often at a very late stage

As many case studies show, employees (or their representatives) are not always provided with sufficient information and involved in the offshoring decision-making process at an early stage. If they assert their influence, this does not usually concern the offshoring move itself, but rather coping with the consequences – for instance the extent of job losses or the size of severance packages for the departing employees.

When employees are presented with a *fait accompli*, nothing is done in many cases to utilise the available opportunities for shaping events. Moreover, the employees are not given enough time for reorientation or to adapt to the changing requirements. In some cases the "official" offer of new jobs within the company is a mere formality because the employees cannot be adequately prepared for the alternative work opportunities either mentally or in terms of qualifications, and instead choose to leave the company.

"Downsizing processes" that seem unfair to those concerned can have a lasting effect on the atmosphere in the workplace and can engender a deep distrust of the company management among the colleagues who remain. The price for failing to show consideration for the interests and feelings of the employees is also likely to be quite high from a company standpoint. That is because offshoring relationships are dependent to a high degree on knowledge transfer and the willingness to cooperate.

## Working situation: changes in everyday working life

Working in offshoring relationships imposes a number of requirements and necessary adjustments. These include a changed task profile, increased coordination efforts and pressure to maintain more detailed documentation of working activities. To ensure that they have overlapping working time windows with partners on the other side of the globe, employees often work unusual hours. Many teleconferences take place early in the morning or during the night. Language barriers, intercultural differences and occasional technical problems sometimes hamper cooperation in everyday operations. Difficulties of this nature become a real stress factor when the management concept has failed to "factor them in", and it is left to the employees to cope with the problems individually.

Only when the two sides actually begin cooperating

does it become clear how realistically an offshoring relationship was planned. It is at this stage that it also becomes clear how important it is to involve the employees (and/or their representatives) and the know-how of the workforce when the concept is being developed. Planning strictly “on the drawing board”, ignoring informal working relationships, can prove to be a blunder in practice – for instance when organisational structures put barriers between areas where employees previously supported one another on a flexible basis. The planning also sometimes fails to take into account the degree of experienced-based knowledge that is necessary to understand customer markets, technologies or forms of interaction. The offshore employees usually have to acquire this knowledge initially; a widespread error in judgment on the part of companies is simply to expect them to know everything in advance.

When the only objective of an offshoring project is to achieve cost savings in the short term, the risk of problematic working and employment conditions is particularly high (Flecker et. al. 2002). When companies do not invest enough resources in developing the cooperative relationship, it is inevitable that employees will have burdens to bear, for instance in the form of additional effort for communication, the constant need to correct errors in work done at far-off locations, or "firefighting missions" abroad.

## Physical mobility also required: business trips and sending employees to work abroad

Despite the intensive use of information and communication technologies, offshoring usually means that it is not only tasks but also people that are sent to far-off locations. Both in the start-up phase and during "normal operations" there are generally some employees working at the partner company's location, some for short periods and some for extended stays, for purposes of knowledge transfers, during certain project phases or to solve unexpected problems. This short-term mobility is very appealing to many employees and is often financially advantageous because of the per diem payments.

At the same time, this travel has consequences for the employee’s lifestyle and the personal contacts “left behind.” When one partner is absent, the entire family is often under pressure to adapt to the situation. Employees who are sent abroad often lead a rather isolated existence if none of their colleagues from home accompany them. A common way of coping with this is to work long days that continue late into the evening. Although the host company generally provides help in finding accommodation and handling bureaucratic hurdles, the visiting employees are usually dependent to a great extent on support from their local colleagues. The “social support” of the colleagues from far away is often left to the personal initiative of the local employees.

## Effect on employment in the originating company: only clear in the long term

While some offshoring projects involve job cuts at the originating site right from the start, others tend to increase employment both onshore and offshore. “We want to grow and are desperately seeking experts,” was a typical statement heard from IT managers at the turn of the millennium. However, it is common for the original rationale of an offshoring project to undergo a transition. Cooperative arrangements originally intended to bridge personnel shortages can become permanent solutions for cost reasons – with negative effects for the employees at the originating company who were previously recruited so energetically.

Apart from the direct impact on the jobs of those employed prior to the offshoring initiative, when assessing the effects of offshoring, it is also important to take into account the potential jobs at the originating location that will now go abroad as they are created. “Growth is now happening only in Asia,” is a statement heard from various IT managers commenting on established offshoring relationships. In addition, offshoring also has consequences for local freelancers or providers of outsourced services who can no longer win contracts.

Sometimes offshoring leads to an enhancement of the job profiles of employees of the originating company, for instance when they take on project management, analytical or consulting tasks. Many (but certainly not all) employees welcome the focus on more sophisticated tasks and the release from routine work.

## Employees in the destination country: business towers or sweatshops?

For employees in the offshoring destination countries, the "immigrating" jobs often represent a very attractive opportunity. Many young workers are keen to enter export-driven service industries that frequently offer salaries many times higher than the national average, clean workplaces and good career opportunities. However, the working and employment conditions vary widely. In India, for instance, alongside the multinational corporations with their modern buildings, HR systems and high salaries, the offshoring sector has many smaller providers trying to gain access to the market through low-cost strategies. Among such companies, salaries are less attractive, and hire-and-fire personnel policies are not uncommon.

Because of the time difference, many employees of offshoring companies have unsocial working hours. This primarily affects workers in call centres who speak on the telephone during the (Indian) night to customers in the USA. Family life often suffers. Forced "westernisation", for instance in the form of accent training, puts employees under pressure and puts them at risk of drifting away from social contacts.

Offshore employees often work for several months "onshore" at the customer's location. In this "dry foot offshoring" (Bibby 2007) cases are frequently seen in which companies pay the mobile workers less than the usual local salaries – often using legal loopholes to do so. This can easily result in the local employees feeling that they are being undercut, which may feed resentment toward the colleagues from outside the country.

## Jobs on the move: never at rest

The phenomenon of outsourcing is characterised by high mobility. Offshoring arrangements are ephemeral structures. The automation of tasks can quickly turn offshoring winners into offshoring losers. Jobs once shipped abroad can quickly be moved to another location or brought back to the country of origin. For some time there have been frequent reports of reverse transfers of activities to western industrialised nations. Many companies are beginning to understand that "costs aren't everything," and are taking action, for instance in response to the protests of annoyed customers who have difficulty communicating with distant call centre agents. Many companies have also started complaining about the "excessively high" Indian salary levels – and are moving on.

**Philip O'Rawe** is an IT manager with British Telecom and is a member of the Executive Council of the British union Connect. As a manager he has many years' experience in the management of offshore projects.

**What should managers bear in mind when taking a responsible approach to offshoring?**

O'Rawe: They should take the interests of all employees into account. Of course managers have to meet their targets. But it is their responsibility to ensure that cost advantages are not obtained through extreme pressure and exploitation. What is important is how the offshore workers are treated: What rights do they have? Do they work excessive hours? Do they get enough vacation days? What is the working environment like? Of course it is important what happens with the people who were previously doing the work. They must be offered high-quality alternative employment. If this is difficult, the offshoring decision should be called into question. Forced redundancies must definitely be ruled out.

**How can the management ensure that the atmosphere within the workplace will not suffer?**

O'Rawe: Managers must first conduct an open dialogue and ensure that nothing takes place behind the scenes. That also means providing credible information on the background. Managers often say, "We want to expand our skills". This results in confusion and distrust when in reality the objective is to cut costs and the employees see that they are not being offered any opportunities to gain new skills at the company's home location.

**How should the transitional phase be planned?**

O'Rawe: Offshoring is often rushed and poorly planned. This results in many problems. For instance, the offshore people are often unfamiliar with the work. Working offshore is a major challenge because the employees there do not have easy access to customers at this end or the decision-makers. In the initial phase they often need help from the employees in the country of origin. However, those people have often already taken on other tasks. Initially the employees should also work at the same location for a certain period. In general the transitional period will only go well if offshoring is a positive thing also for those who were originally doing the work. They will hardly be cooperative if they are losing their jobs.

**Offshore workers often work for some time onsite at the customer's location. What is important to consider in that situation?**

O'Rawe: Managers must ensure that the working and employment conditions of the offshore people are good and that local standards are not evaded. That applies to every aspect: salaries, working hours, vacation, social insurance ... It will cause tension among employees if the locals have the feeling that the conditions that apply to them are being undermined. We can't allow any downward spirals to get started.

**How can the management foster the integration of the offshore workers and mutual understanding?**

O'Rawe: The employees should learn a little about the culture of their colleagues overseas – for example their holidays or cultural rules that others must follow. One can organise celebrations on the special holidays of the offshore workers. A stay abroad is especially difficult for them unless more than one person from their country is onsite. Companies should help to set up networks. Regrettably, one occasionally encounters local employees with racialist attitudes. They have to be shown that offshoring does not have to be a threat to them. Whether or not they accept this, strict sanctions must be applied in cases of racist behaviour. We unions also have a task. We should actively work to recruit offshore workers as members – even if they are with us only for a limited period.

# Offshoring Code of Conduct for Managers

## Preamble

The Code of Conduct for managers defines principles that responsible managers should take into account in connection with offshoring. Efforts to achieve company objectives must be measured against the standard of safeguarding the interests of the employees in the country of origin and at the destination in secure employment and good working conditions.

The focus of responsible offshoring is not maximum utility in the short term, but rather the sustainable development of the company and the personnel that creates opportunities both in economic and social terms. Ensuring that offshoring projects are guided by sound ethical principles is not the sole responsibility of the top management, but is also influenced by each individual decision maker.

## Decision-making process, planning and setting up offshoring

- **Information and participation**: Employees and their representatives are informed of offshoring plans at an early stage and are involved in the decision-making processes. They are also involved in the ongoing assessment of offshoring and deci-

sions on continuation, modification or reversal of offshoring.

- **Open communication**: Through open, credible communication on offshoring plans, management ensures a high level of transparency in the workforce and prevents the spread of uncertainty. A sufficient lead-up period enables employees to adapt to the changes.

- **Thorough calculation of benefits and planning**: Offshoring decisions are based on a realistic calculation of risks and costs. Alternatives to offshoring are given full consideration (e.g. internal training measures to eliminate shortages of expert skills). With thorough planning, the management avoids unexpected additional burdens on employees during implementation.

## Personnel policy at the place of origin

- **Protection of working and employment conditions:** Secure working and employment conditions of persons originally employed to perform the tasks in question are a top priority. If employees lose their original jobs through offshoring, they are offered alternative high-quality internal jobs and adequate training and support for making the transition.

- **Avoiding forced redundancies, individual support:** If a reduction in the workforce cannot be avoided, absolute priority must be given to natural turnover or, if necessary, voluntary redundancies. Forced redundancies must be avoided. Employees who leave the company are provided with training or advice to support them in their search for attractive alternative employment.

## Standards in destination countries

- **Employment and working conditions:** Employees in offshoring destination countries are paid appropriate wages and offered secure and healthy working conditions. In case of lengthy periods spent at the customer's location, the usual local salaries and standards apply to them.

- **ILO Core Labour Standards**: In the hiring process, the formulation of contracts and the ongoing employment relationship, the management shall ensure that the offshoring partners comply with the ILO Core Labour Standards: freedom to organise in trade unions and right to collective bargaining, abolition of all forms of forced labour and child labour, elimination of discrimination in employment and choice of occupation.

## Intercultural cooperation

- Managers shall create the basic conditions for cooperation based on mutual respect between the employees at the various locations. By preparing the employees well and creating opportunities for them to meet in person, they will facilitate the development of mutual understanding. When resentment is seen towards the employees from other countries, they shall respond decisively.

## Society and the environment

- **Professional standards and corruption**: Managers shall respect the customs and traditions of the partner country and take them into account when planning cooperative activities. At the same time they shall protest firmly against any actions that violate professional and ethical standards.

- **Environmental protection**: When considering, planning and implementing offshoring projects, the environmental impact – for instance through travel – shall be taken into account and included in the cost-benefit analysis. A criterion for the selection of offshoring partners is their compliance with basic environmental standards.

- **Safeguarding customer interests:** In offshoring, high-quality customer service is a top priority; cost cuts at the expense of customers must be avoided. In the selection of partners and implementation it must be ensured that offshoring partners meet the strictest data protection standards.

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