SCOTTISH TRADES UNION CONGRESS

A Strategy to Sustain Call Centre Jobs in Scotland

Introduction

This paper proposes an STUC strategy to sustain and improve call centre jobs in Scotland, placing it in the context of the trade union response to the wider globalisation agenda.

Background

In implementing the revised Framework for Economic Development and Smart, Successful Scotland, it is crucial that the Scottish Executive and the enterprise networks develop forward looking strategies to manage the offshore outsourcing process at national, regional and workplace level in a way that maximises the economic benefits and minimises the costs to those directly affected.

The massive industrial restructuring of the 1980s and 1990s inflicted so much economic and social damage because of the lack of an effective policy response through industrial, regional and labour market policy. Some of the consequences are still with us today in the poverty and high rates of labour market exclusion in the older industrialised areas of the country.

The trade union response to offshore outsourcing (*outsourcing is the shorthand used in this paper – it is used to denote the specific threat posed by offshore outsourcing, rather than domestic outsourcing*) is a pragmatic one. Big scale outsourcing is not inevitable. Trade unions and employers working with public agencies can influence both the pace and direction of change. There are significant practical barriers to outsourcing, often glossed over by consultants and others with a vested interest in talking up the case for outsourcing. Technological change in the future could work in both directions, making some jobs more vulnerable and others less so. Moreover, historic experience suggests that low wage costs advantages rapidly disappear in the internationally traded sector.

That said, the potential exists for an intensification of the outsourcing of service sector jobs to low wage locations. The STUC has very serious concerns over the potential impact of this process in Scotland. In response Scotland (and indeed the UK) requires the sort of considered, forward-looking and interventionist industrial and regional policies that the STUC has long advocated. Policies are also required that promote fair labour practices (including freedom of association) in low wage countries in line with ILO conventions.

The STUC believes that it is necessary to challenge as strongly as possible those who refuse to acknowledge that a problem exists until job losses start to flow or that government is helpless to act in the face of international market forces. The STUC also recognises that it is more than call centre jobs under threat. Back office processing (BPO) jobs have to date borne the brunt of job losses through outsourcing. However, by focusing on call centres, the STUC seeks to demonstrate that positive action can be taken to mitigate the effects of outsourcing on the Scottish economy.

This strategy paper seeks to provide:

- Background on Scotland' s call centre industry and the nature and scale of the threat posed by outsourcing; and,
- A summary of the key areas for action aimed at improving the quality and sustainability of Scotland's call centre jobs

Phil Taylor and Peter Bain's report 'Call Centres in Scotland and Outsourced Competition from India' was published in November 2003. It is a comprehensive and rigorous analysis of the Scottish and Indian call centre industries and the factors which facilitate or inhibit the transfer of Scottish jobs. All the statistics which follow are drawn from this report.

Scotland's call centre industry - the current position

Call Centres are vitally important to Scotland's economy. There are 290 call centres in Scotland employing 56,000 people, one in 43 (2.3%) of the working population.

It is true that, to date, outsourcing to India has had only the most marginal effect on call centre jobs in Scotland. Indeed, Scotland's call centre industry has experienced considerable recent growth:

- The number of call centres increased from 220 to 290 and employment by 10,000 over the period 2000 and 2003;
- Ninety-two call centres predict increased employment by 2006; and,
- Between 2000 and 2003, 36 call centres closed in Scotland, mainly through the crisis of profitability in telecommunications, company rationalisation, continued weakness of demand and the vulnerability of domestic outsourcers.

However, the scale of the threat to these important jobs should not be underestimated. Evidence suggests that there will be an increase in the level of outsourcing to India by many companies who operate call centres in Scotland. Taylor and Bain found that:

- Half the companies who already outsource have stated their intention to increase that activity in the next 2 years;

- Amongst those companies who do not currently outsource, the number who have stated that they will either definitely, or possibly, outsource to India increases as the future time frame is extended;
- Amongst those who have already outsourced and those stating an intention to do so, financial services companies are prominent with insurance companies ushering in a first wave and banks following;
- The further into the future companies intentions are examined, the greater the interest in outsourcing from companies in diverse sectors – telecoms, computing, holidays/travel;
- The companies who have already outsourced or are expressing an intention to do so, are amongst the largest and operate call centres which are bigger that the industry average.

The business case

The business case for outsourcing to India focuses on 2 main factors: substantially lower labour costs and the plentiful supply of English speaking graduates. The latest research suggests that these factors may have been exaggerated and that there are also many other factors which add to the cost base. A full examination of the business case for outsourcing is contained in Annex B.

The STUC believes that the general lack of rigour exposed in the business case for outsourcing Call Centre jobs to India is reflected in the business cases for other types of offshoring e.g. BPO jobs.

The response

To date, policy makers have tended to dismiss the threat posed by outsourcing as the inevitable result of international market forces, arguing that it is therefore not appropriate or desirable for government to act.

The STUC believes that the Scottish Executive can and should act now to help ensure that call centre jobs in Scotland are improved and sustained. The call centre industry provides important jobs often in areas that have been ravaged by the decline in manufacturing. A major concern is that the financial services sector, which has driven recent growth in Scotland, is under particular threat from future outsourcing.

It is appropriate that action is taken now. Previous experience in manufacturing informs us that action undertaken once the industry is already in decline is unlikely to bring positive results.

Key areas for action

The key issues that any strategy aimed at sustaining and improving call centre jobs in Scotland must address are:

1. Skills and training

The availability of skilled and qualified labour is the primary reason call centre employers choose to locate in Scotland. This is confirmed by the Taylor and Bain report and also the Scottish Enterprise commissioned EKOS study. In order to maintain this competitive advantage it will be necessary to identify:

- existing good training practice and how this may be built on;
- the particular skills such as language, higher level IT and sales skills that will be demanded by call centres in the future; and,
- ways in which employers can be encouraged and supported to train their employees.

2. Promoting a Positive Image

Call Centres in Scotland have suffered from a negative public image due in no small measure to the health and safety, pay and employment practices issues outlined below:

- **Health and safety**: stress, voice loss and voice strain, hearing impairment, visual problems related to VDU working, musculo-skeletal disorders related to inadequate and/or shared equipment;
- **Pay**: competition between companies and increased union recognition has helped to improve pay levels however there are still pockets of low pay with poor recognition of unsociable hours, flexibility and dubious performance related pay schemes; and,
- **Fairness at Work**: call centres have not always had a positive approach to work life balance which is especially worrying given the gender profile of the workforce.

Moving up the value chain will not necessarily resolve these issues. Trade unions have an important role to play here and can point to a successful track record in helping to introduce new forms of work organisation in a range of industries. Research clearly reveals that organisational change is best achieved through working with a recognised trade union. The STUC is keen to work with the enterprise networks and employers to address these issues effectively and thereby improve the image of call centre jobs in Scotland.

Recognising the importance of call centres to the Scottish economy and the threat posed by outsourcing, Scottish ministers should also endeavour to promote the industry whenever possible.

3. Infrastructure

Problems with infrastructure have been identified as a crucial factor inhibiting companies from relocating overseas. It is important that the Scottish Executive and enterprise networks work to ensure that Scotland's transport and telecommunications infrastructures are improved on an ongoing basis in order that this competitive advantage over India is maintained.

4. New Technologies

Scotland's call centres must invest in new technologies to maintain their competitive advantage. It will be important for Scottish Enterprise to encourage and support companies through this process.

5. Fair labour practices/ILO conventions

Companies who recognise trade unions in the UK should extend this right to Indian employees. Failing to do so leaves companies open to the charge of treating Indian workers inequitably. It is hypocritical to claim that services provided remotely from India replicate those provided in the UK when a key element of the employment relationship – trade union recognition – is not being offered in India. Workers in Indian call centres are also prey to the bad employment practices outlined above.

The STUC calls on the Scottish Executive and UK Government to work to ensure that international labour standards are applied in emerging economies.

The role of the enterprise networks

As the main economic development agencies in Scotland, Scottish Enterprise and Highlands and Islands Enterprise have a pivotal role to play in addressing the issues outlined above.

A report prepared by EKOS Ltd for Scottish Enterprise in January 2003 suggested a support strategy for the Scottish call/contact centre industry the aims of which were:

- To retain and/or increase Scotland's share of the UK and European contact centre market
- To encourage and support Scottish contact centres to move towards the high value-added sector of the industry, thus improving business competitiveness

The report indicates priority areas for public sector intervention with which we would largely concur:

- Developing workforce skills and competencies through education and training
- Improving perceptions of contact centres in the jobs marketplace
- Effective industry networking and knowledge exchange

It is somewhat disappointing that little progress appears to have been made to date in turning this work into a robust strategy to drive SE's work with Scotland's call centres. The STUC is keen to work with the enterprise networks to implement the recommendations of the EKOS report and to undertake other action in the areas outlined above.

The UK response

The STUC supports the TUC's call for a UK Global Offshoring strategy that would include:

- An authoritative analysis of the potential impact region by region identifying the key areas and likely timescale;
- Focused industrial and regional policies with the early involvement of the devolved administrations and regional economic development agencies to help companies improve the efficiency, quality and diversity of UK operations and to encourage alternative sources of employment in the local economy;
- Additional support to encourage training and upskilling to allow staff to redeploy to high value added jobs, including support for Union learning Representatives;
- DTI to help draw up and promote code of best practice to encourage all firms to handle change through negotiation and consultation, drawing on the positive examples summarised below and in submissions by individual unions; and,
- Support the trade union movement's efforts through international agreements and through the WTO to promote core labour standards and the international codes of best practice.

Conclusion

The call centre sector in Scotland is undoubtedly at a crossroads. Recent research and the experience of our affiliated trade unions, confirms that most companies are carefully considering their options on location. It is clear that decisions with potentially devastating implications for Scottish jobs are imminent.

The crucial issue is what more can be done to ensure that Scotland's competitive advantage is enhanced in relation to higher value call centre work. The enterprise networks must ensure that employers are encouraged and supported to train their employees in the language and higher-level ICT skills that will be so important to the call centre work of the future. It is also vital that Scotland's telecommunications and transport infrastructure are not just maintained but improved to a level that continues to offer Scotland a substantial edge over India.

It is vital that, working with trade union and employer partners, the Scottish Executive and enterprise agencies act now to protect, improve and sustain the jobs within our call centre industry. In doing so, lessons can be learned that should help ensure Scotland becomes a beneficiary, rather than a victim, of the global economy.

STUC
October 2004

Annex B

Outsourcing Call Centre Jobs to India: the Business Case Examined

1. Introduction

There is a tremendous amount of hype surrounding the business case for transferring call centre jobs to India. While it is undeniable that cost savings in the short-term can be very significant, it is our belief that too many organisations are making decisions to outsource on a simplistic analysis of labour cost savings alone. Surveys also reveal that many businesses feel under pressure to outsource because their competitors are doing so. A report from one major consultancy stated 'the absence of a clear offshoring strategy will send an organisation's share price spinning'.

However, a number of major Scottish and UK companies have happily gone public with their intention not to outsource. Questions must be asked about why these companies can retain their Scottish and UK operations, while others argue that they must offshore to remain competitive?

In the long term it is highly questionable as to whether India as a destination is the most advantageous business decision for all service sector organisations. Despite the noted disadvantages, there has yet to be a balanced and informed debate to support company decision-making. Instead, organisations are being put under tremendous pressure to outsource, regardless of whether it is the right business decision.

Taylor and Bain (2003) identify a number of factors which inhibit the successful transfer of jobs to India. The STUC believes that companies must consider the business case for transferring Scottish jobs overseas very carefully. Scottish workers must not be made redundant on the basis of overly simplistic business plans formulated only with the pursuit of short-term profits in mind.

2. The business case for outsourcing

The 2 main reasons for migrating services overseas are:

- costs reduction and/or increased profitability;
- labour availability, specifically the skills and education of the workforce.

Other reasons include the:

- need to offshore repetitive, routine (often outbound) work;
- promise of operational flexibility and the ability to extend customer contact hours;
- hope that migrating services will achieve synergies across global operations.

3. Other factors which must be taken into account

Outsourcing from the UK is still in its early stages and in reality it is still unclear whether the advantages of exporting voice services outweigh the disadvantages. Taylor and Bain identify several factors which might reduce India's costs advantage:

- **Recruitment**: A sizeable minority of organisations have experienced recruitment difficulties with the shortage of skilled agents reported as the most significant reason. As the industry grows these problems will be exacerbated.

- **Attrition**: Rates of attrition in India in reality are similar to those in the UK the average is 25-35% and 50-60% in particular locations. The cost of recruitment, language training, cultural training, training to do the job itself will add considerably to costs in the light of significant attrition. This will be a considerable and costly problem in the long term. High attrition may damage the quality of customer service and will be compounded by language and cultural differences.

- **Wages**: there is compelling evidence that labour costs are rising in India. Indian companies appear to be paying higher salaries, in order to retain existing staff, or to recruit from a labour pool in which competitive pressures are intensifying.

- **English speaking resource**: there are clearly difficulties in converting the English speaking resource into an actual ability to interact with customers for whom English is their mother tongue. Many applicants fail the hurdles of speech and accent tests.

- **Infrastructure**: Power cuts are common. The backup supplies, though apparently successful, have considerably increased infrastructure costs.

- **Transport**: Transporting employees to work presents huge logistical challenges for employers. At stake is the very ability to operate effectively. Organising free transport by providing fleets of buses, mini buses and taxis is a further cost. Logistical difficulties are further compounded by severe weather conditions.

- **Political situation**: the recent rise in communal violence cannot be underestimated when examining whether India has the political stability to maintain outsourced work in the long term. The recent nuclear tensions between India and Pakistan against a backdrop of wider geopolitical tensions need to be noted.

CSR and ethical issues for UK Companies outsourcing Call Centre Services to India

There is a persistent and widespread practice of not revealing to the customer India as the location of the centre handling their call. A strong ethical case can be made for the customer's right to be informed of the location of the call centre with which they are conducting a transaction. Attempts by organisations to deliberately deceive customers, or to inform customers only under duress, could well be highlighted as examples of industry bad practice.

Powerful objections can be made on ethical and anti-racist grounds to the practice of Indian agents adopting western names and identities. India is no exception to the internationally recognised phenomenon that call centre work is stressful and repetitive. Managers of Indian call centres report that the combination of working at night – six days a week, ten hours a day - is extremely stressful. Together with hiding their identities, repetitive work and abusive customers is taking its toll on agent's health, social and family life. Exhaustion, withdrawal and burn out are common.

Companies who recognise trade unions in the UK should extend this right to Indian employees. Failing to do so, leaves companies open to the charge of treating Indian workers inequitably. It is hypocritical to claim that services provided remotely from India replicate those provided in the UK when a key element of the employment relationship – trade union recognition – is not being offered in India.

Data protection

There are currently no data protection laws in India. The main area of concern lies with the confidentiality of customers' details when these are passed to India for the purpose of conducting transactions. Given the high proportion of financial services' call centre activity in India, guarantees of security are clearly important. This situation raises several questions:

- Do UK companies who have transferred call handling to India inform customers of the fact that their details may be accessed abroad?
- Have companies informed their customers of the measures they have implemented to ensure the surety of their confidential details?
- How robust are these measures and how frequently are they reviewed?

On all these, and other matters, whether or not they are legally compelled, companies should be reporting to their customers with frankness and integrity.

Given that no data protection legislation exists in India, there is a strong case for UK companies being seen to take all necessary steps to protect the interests of customers. Further, there is an obligation upon companies to inform customers of the effectiveness of measures adopted.

Conclusion

It is undeniable that companies who choose to offshore are likely to make significant savings on labour costs in the short-term. Labour costs comprise around one-third of the total costs in Indian call centres, the reverse of the UK, where labour costs are around 50-70%. Many implications follow including the requirement to utilise call centre capacity for the longest periods possible.

However, it is clear that major problems must be overcome before this relatively inexpensive labour resource can be deployed effectively.

India's labour cost advantage is meaningless without the other key workforce attribute – the ability to speak English. Taylor and Bain (2003) report that 'the depth and complexity with which Indian call centre agents can engage with customers is a key issue facing the industry'. Other factors, such as dealing with the high rates of attrition, transport costs and infrastructure development will also affect a company's ability to maximise profits from the labour costs savings.

Those companies, who have publicly declared their intention not to offshore UK jobs, have been driven at least in part by their wish not to antagonise their customers. This would appear to be a sensible policy. It is not difficult to envisage a growing customer backlash against offshoring. Of particular importance may be any failure on the part of companies, who have migrated services to India, to comply with ethical guidelines and corporate responsibility agendas.

STUC
October 2004