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Offshoring and the changing nature of work

ComArch, the Polish computer systems business, announced two weeks ago that it was sourcing increasing amounts of its information technology work in the Ukraine, where the salaries of information technology staff were a fraction of those in Poland.

The announcement caught my eye, not because labour sourcing across borders is anything unusual in technology companies, but because Poland, which has itself benefited from European business as a cheap source of IT labour, is now sourcing cheaper labour elsewhere.

However, Poland is not losing out economically. Companies such as ComArch have grown spectacularly on the back of foreign investment. The free flow of technology work to the cheapest sources of labour is creating a kind of economic domino effect with an outcome similar to that recognised by David Ricardo, the 19th century economist, when expounding his theory of comparative advantage.

The similarity arises because companies such as ComArch in Poland and Tata in India are expanding their businesses into western labour markets, creating new jobs to replace those that might have been lost in the labour-sourcing phenomenon of offshoring that has become a serious election issue in the US.

Nor is this issue confined to North America. A recent Forrester research report based on responses from 247 IT bosses found that three-quarters of mid-sized and large companies in western Europe planned to use offshore outsourcing services between now and 2009. The same survey predicted that the percentage of western European companies planning to move 1,000 or more jobs offshore would double between 2005 and 2008. Forrester expects Europe to lose 1.2m jobs offshore by 2015. But offshoring is only part of a fundamental sea-change in labour sourcing that is challenging the way we think about work. Demographic trends in Europe, characterised by falling birth rates coupled with underfunded pensions, are likely to create serious labour shortages and bleak retirement prospects for many employees.

These developments are likely to force employers to rethink their pay policies. Where, in the past, it has been the custom for middle-aged employees to look forward to ever-increasing pay awards as they approach retirement, in future there may be some logic in tapering pay and responsibilities downwards later in careers. This way, employers may be less attracted to the idea of getting rid of their costlier older managers in early retirement or redundancy schemes.

New approaches will be required, as much of individual employees and trade unions as of employers. Chasing ever-higher earnings may become less of a priority for the unions than ensuring career-long employment opportunities for their members.

In the short term, employers worried about labour shortages in the UK can take little heart from European Union enlargement. A recent survey by Manpower, the employment agency, of its 300 UK branches found evidence of no more than a trickle of jobseekers from the new member states.

The UK government recognises that skilled workers from central Europe would be welcomed by many employers to plug serious skills shortages in traditional trades. An NOP survey for Manpower found that more than a fifth of UK companies were

experiencing skill shortages, mostly in skilled trades such as plumbing and carpentry, but also in customer service and general office jobs.

Skilled trades remain in demand but manufacturing jobs have been seeping out of the UK for years. The TUC said this month that 750,000 manufacturing jobs had been lost in the UK since 1997. Service jobs have more than compensated for these losses in numbers but not always in the quality of work. Moreover, improvements in IT have meant that many service jobs, such as those in call centres, tend to be easily transferable since they do not depend on large investments in plant and machinery.

Work, which used to be something geographically confined within a specific area such as a large factory or office block, is becoming more fluid, often because of market pricing, flowing to where it can be undertaken cheaply. The good news about these developments is that work can go where it is most needed. Unlike foreign aid which does little to create sustainable improvements in living conditions, the creation of paid work injects spending power into economies which, in time, creates new markets for those countries that experienced initial outflows of work.

What remains unclear, however, is whether these new markets will compensate for the loss of jobs and pay reductions suffered by countries experiencing outflows. Foote Partners, the US-based management consultant and IT industry research company, reports that the offshoring of US IT work has led to a slide in salaries for many similar jobs retained in the US. Some might view a degree of economic levelling between the wealthy west and the rest of the world as a welcome development although there are few signs of any substantial migration of work to the poorer southern hemisphere, including sub-Saharan Africa.

When placed in perspective against the hundreds of millions of under-employed people or working poor, particularly in developing nations, a downturn in US IT pay can be hardly viewed as a crisis. It is yet another symptom of globalisation that has reached a scale, according to Forrester, that will enable companies to outwit by stealth any attempts to introduce protectionism.

As companies begin to make increasing proportions of their revenues using the internet, we can expect to see more fragmentation of work as a result of the competitive prices of outsourced services. The cost of these services must be compared to those undertaken in-house that carry significant overheads beyond salaries - in company pension contributions, benefits, holiday pay and property costs. This trend has been slow to match predictions in the 1990s of a growth in freelance working, possibly because of big company and government inertia coupled with traditional expectations.

But attitudes have changed, nevertheless. Fewer job seekers today appear to be enamoured by prospects of a lifetime career with one employer. A greater emphasis on individualism has reduced the spirit of collectivism and institutional "belonging" that characterised the lives of those brought up before and just after the second world war. But it has not yet destroyed "the job", which is proving more resilient than some might have expected.

Dual careers, overlapping careers and careers interspersed with gap years and additional study are all entering working life. Lagging behind these trends is government policy, not just in the UK but also at the heart of the European Union, where social policy continues to be dictated by job creation philosophies rather than matching people to work suggested by greater labour market flexibility. Work should remain important, but as a means towards richer lives - not for its own sake.

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