The Dynamics of Call Centre Offshoring

During autumn 2002 the offshoring of call centres from the U.K. to India first attracted serious media attention. Coverage followed high-profile decisions by the Prudential to close its Reading call centre and to migrate 850 jobs to Mumbai, and by HSBC to transfer 4,000 posts to India and Malaysia. While India had already demonstrated its viability as a remote destination in the delivery of IT/software services and to a lesser extent data processing, these were watershed decisions, precipitating the rapid migration of both call centre and back office services.

What is striking about the first offshoring wave was the large number of financial service organisations involved and the scale of their activity. Initiatives were taken both by UK-owned organisations and those with significant UK operations, including the Prudential, HSBC, Norwich Union/Aviva, Lloyds/TSB, Barclays, Royal and Sun Alliance, Abbey and Axa, either to establish their own 'captive' operations or to outsource to Indian or multinational third-party providers. Just as financial services had provided a template in the 1990s in the diffusion of the innovative organisational form of the call centre *within* the UK, so too it played a key role in its global relocation as companies in diverse sectors followed suit. These included British Telecommunications, Vodaphone, Virgin Atlantic, Powergen, Centrica and Tesco. Mention should also be made of the growing Indian capacity of domestic outsourcers, such as Vertex and Capita.

Apocalyptic predictions that offshoring to low cost geographies would decimate the UK industry proved unfounded. This author consistently argued (Taylor and Bain, 2003) that the domestic call centre sector would continue to grow *at the same time* as offshoring would increase (see also IDS, 2005; ONS, 2005). The statistics make this clear. Although the Department of Trade and Industry's (2004) memorable forecast of 1 million employed in UK centres by 2007 may not have been fulfilled, the workforce has grown impressively to more than 800,000. One telling illustration of the continued vitality of the UK contact centre industry is its flourishing domestic outsourcing sub-sector, whose operations were believed to be most susceptible to Indian competition. Research being conducted on the Scottish sector suggests around 80,000 currently employed, up from 56,000 in 2003. These figures provide an important perspective on the scale and impact of offshoring. By 2007, of the 553,000 (Nasscom, 2007) employed in the entire Indian Business Process Outsourcing (BPO) sector, only around 50,000 at the outside were in UK customer-facing roles. Put another way, the *total* number of UK-facing jobs in India is significantly less than that of Scottish call centre employment.

The offshoring of customer contact has always been a more contradictory and finely grained process than popularly believed. Certainly, the fundamental driver was and remains the perception that relocation would deliver hugely reduced savings and increased profitability, attractions heightened by the intense competitive pressures facing companies and, relatedly, the influence of shareholder pressure. A senior manager of a major UK insurer highlighted the importance of the central dynamic,

> We went to India predominantly for reasons of cost. What lay behind the need to offshore was the competitive nature of the insurance market and the industry regulations. The effect of these was to really squeeze the margins, which means that if you are going to exist and thrive in this business then the cost of your organization becomes absolutely key. (*Interview* cited in Taylor and Bain, 2006: 150).

Companies reported additional reasons for offshoring, notably the skills and availability of India's graduate, English-speaking workforce, but also the ability to expand global operations, to extend operational flexibility, to provide services that could not be provided cost-efficiently in the UK and the desire to escape tight labour market conditions. Perhaps most significantly, though, offshoring has been an integral part of, or has been the spur to, company-wide rationalisation and process re-engineering. Consequently, the services that have tended to be migrated to India have been the most standardised, transactional and least risk-laden, typically involving scale economies and high volumes.

While powerful economic pressures have driven offshoring, multiple factors have combined to inhibit migration and make the process of relocation far from unproblematic. There is evidence of erosion in the cost differential. While for several years the Indian employers' organisation (Nasscom) publicised overall cost savings of 40-50%, later estimates suggested reduced levels of 30-40% (Nasscom-McKinsey, 2005) and more recently even lower levels of 25-35%. Labour costs are certainly rising by more than the 10-15% per annum admitted to by Nasscom, particularly for certain processes and in certain locations. Frenetic growth has caused shortages of skilled labour, estimated to reach 0.5 million employees by 2010 (Nasscom-McKinsey, 2005), and overheating labour markets is fuelling staggering levels of attrition. Further, it cannot be assumed that 15 years education in English *necessarily* equips graduates with the linguistic and cultural depth to serve customers to standards deemed acceptable by UK companies. Analysis of employers' experiences indicates that the most commonly reported disadvantage is linguistic and cultural difficulty that has impacted to the detriment of service quality, an outcome closely related to widespread customer resistance.

Thus, for many UK-based organisations the advantages of offshoring have not always been seen to outweigh the disadvantages. We note the well-documented cluster of financial service companies to have publicly rejected the migration of voice services (Royal Bank of Scotland, Halifax Bank of Scotland, Nationwide Building Society, Alliance and Leicester) seeing their decisions to remain at home as a source of competitive advantage. There are very many others for whom offshoring is inappropriate or inapplicable. Even where companies have offshored, there are constraints on the types of service relocated. Ongoing research shows companies demarcating between offshoring the most standardised calls and retaining in the UK the 'core competencies' of more complex and value-adding customer contact. Further, while offshoring companies largely remain strategically committed to their relocational decisions, the return of voice services to the UK by a handful of others (Lloyds/TSB, Powergen, Esure) is a notable development.

In conclusion, although cost differentials are fundamental to the dynamics of offshoring, they are far from the only factor influencing the location of customer contact. Service quality is a crucial consideration. Contrary to the received wisdom of 'globalisation' it is simply not the case that 'everything will go'. Increasingly, larger organisations are moving beyond unilateral offshoring to India, even though it will remain easily the most important destination geography, and are seeking to develop *onshore*, *offshore and nearshore* solutions. This emerging global service delivery model enables suppliers and sourcers to capitalise on differing combinations of skill, resources and capabilities in diverse locations.

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